

Post Office Limited – Strictly Confidential

POLB (12)11th
POLB 12/115-125**POST OFFICE LIMITED**
(Company no. 2154540)Minutes of a Board meeting held on 21st November 2012
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In attendance:

Alwen Lyons	Company Secretary
Hugh Flemington	Head of Legal (item 12/117 only)
Kevin Gilliland	Network and Sales Director (item 12/118 only)

Tim Giles	AON Hewitt (item 12/1 only)
Zoe Taylor	AON Hewitt (item 12/1 only)

POLB 12/115		INTRODUCTION
	(a)	A quorum being present, the Chairman opened the meeting. She welcomed Fay Healey, Chief HR Officer, who was deputising for Susan Crichton, HR & Corporate Services Director.
POLB 12/116		PEOPLE UPDATE
	(a)	Fay Healey gave an overview of the performance measurement exercise which had been undertaken for the SLT and the results of the half year reviews for managers across the directorates within the organisation.
	(b)	The performance review results were aligned with commercial performance, in terms of reflecting the scale of the challenge of Network Transformation but also recent successes in the Commercial area and growing strength in Financial Services.
	(c)	The revised performance matrix was discussed. The process of assessment would mean an increase in the level of turnover at senior level but it was agreed that the future of the business would require a high calibre team who could carry through initiatives and respond to challenges to enable the business to achieve stretching targets.

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ACTION: FH	(d)	The Board noted the measures being taken to recruit additional staff, including the proposals for a fast track graduate entry scheme and the steps being taken to promote and build talent within the organisation.
	(e)	[Discussion here]. The HR team was requested to provide/circulate
	(f)	The Chairman commented on the recent Nominations Committee meeting, at which it had been agreed that talent and diversity should receive particular attention. The talent pool needed to be strengthened as there was still a considerable gap in succession planning at senior levels.
	(g)	The Nominations Committee would concentrate on appointments to the Board and the direct reports to the Chief Executive. The Remuneration Committee would similarly deal with remuneration policy and packages at these most senior levels.
ACTION: Company Secretary	(h)	Revised terms of reference for all committees [in industry standard form], including the Nominations and Remuneration Committees, would be brought back to the Board for final approval in January.
POLB 12/117		PROJECT RAINBOW
ACTION: Company Secretary/HF	(a)	The Chief Executive gave an update on the current situation. She had invited HF to join the meeting to provide further guidance on the legal discussions which had taken place and which were continuing.
	(b)	It was confirmed that Post Office was in close contact with X and Y to ensure that the communications plan could be adjusted if disclosures needed to be made quickly.
	(c)	There was a significant reputation risk to Post Office arising from events such as this. The ARC had discussed high risk contracts at its recent meeting and had agreed to undertake a more detailed review at the next ARC meeting in February.
	(d)	The Board discussed the likely approach of the Information Commissioner.
	(e)	[Anything else raised here]
	(f)	The Board supported the approach taken to date and asked to be kept informed.
	(g)	X asked for sight of the revised emergency response plan which had been drawn up to deal with any future incidents. It was also suggested that the business should carry out a review of indemnity insurance protections which might be available to the Company in similar circumstances.
POLB12/118		NETWORK TRANSFORMATION REPORT AND CROWN UPDATE

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	(a)	Kevin Gilliland joined the meeting to provide the latest update on the conversion rate and progress within the transformation programme for the wider network and in particular the plans for turning around financial performance within the Crown offices.
ACTION: KG	(b)	<u>Network Transformation Programme</u> He explained that
	(c)	The Board urged the executive team to push hard for conversions and asked for a further report at the January meeting on progress up to the end of the calendar year.
	(d)	<u>Crown Transformation Update</u> KG explained the assessment of risk of not reaching the target to achieve profit within the Crown office network by April 2015.
	(e)	The programme for engagement with the unions was outlined and it was agreed that
	(f)	It was noted that the new operating model was just being rolled out in 2 further locations and 3 subsequent pilots would begin in February 2013.
	(g)	KG was asked to return with an update on Crown office progress in [February].
	(h)	[NM reiterated his request for a 5 year P&L for the Crown offices.]
POLB12/119		CHIEF EXECUTIVE'S REPORT
	(a)	The Board noted the CEO's report and discussed the following specific items:
	(b)	DVLA/DWP contract wins: The Board congratulated the team on this achievement. The value of business to the Post Office was likely to be in the region of £ over X years.
	(c)	Royal Mail interaction:
	(d)	Stakeholder Forum:

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	(e)	The Health and Safety report appended to the Report was <u>noted</u> .
POLB 12/120		MINUTES OF PREVIOUS MEETING AND MATTERS ARISING
	(a)	The minutes of the Board meeting held on 23 October 2012 were <u>approved</u> for signature by the Chairman
	(b)	The Status Report, showing matters outstanding from previous Board meetings, was <u>noted</u> .
	(c)	The Board <u>noted</u> the minutes of the Pensions Committee meeting held on 11 October 2012. The Chairman had already summarised the matters discussed at the Nominations Committee meeting held on 7 November; the minutes of that meeting would be included in a future pack.
	(d)	Alasdair Marnoch provided an overview of the matters discussed by the Audit, Risk and Compliance Committee meeting (ARC) held on 13 November. The minutes would, similarly, be included in a future Board pack.
	(e)	Chris Day reported that, after taking into account the comments of the ARC, the half year trading statement for the six months ended 23 September 2012 had been approved by a sub-committee of the Board on 20 November. Copies of the press release had been circulated to all Board members. The statement would be released to the press on 22 November for publication on 23 November.
POLB12/121		FINANCIAL PERFORMANCE UPDATE
	(a)	CD presented the review of financial performance for October 2012, including the Crown P&L statement, the business scorecards, a review of progress against funding plan commitments and a cost management report.
	(b)	It was noted that ExCo membership of the Transformation Board had been strengthened to provide closer oversight and push forward on key targets.
	(c)	In terms of other key metrics within the business scorecard, the DVLA and DWP contract wins would now be able to be shown and progress on network transformation had been discussed earlier in the meeting.
	(d)	[Other financial performance issues here]
	(e)	The Board asked that

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ACTION: CD		
POLB 12/122		PENSIONS: INVESTMENT BELIEFS AND ASSET ALLOCATION
	<ul style="list-style-type: none"> (a) (b) (c) (d) (e) (f) (g) (h) 	<p>VH explained that, in order to confirm to the Trustees of the RMPP a preferred asset allocation, it was important for the Pensions Committee to establish the Board's views on appropriate investment objectives and asset types for the Post Office sections of RMPP. RMPP had its own statement of investment beliefs but this document was under review.</p> <p>Board members had been invited to complete an online survey issued by AON Hewitt and this had given some indication of beliefs about certain categories of investment. Representatives of AON Hewitt had been invited to join the meeting to discuss those indicators and make proposals on strategic asset allocation in more detail.</p> <p>Tim Giles and Zoe Taylor joined the meeting.</p> <p>TG explained that the purpose of the discussion was to refine the decisions taken at the last Board meeting to invest the Post Office sections 50% in growth assets and 50% in index linked gilts and to use extended hedging to limit the risk of an increase in liabilities arising from inflation or changes in interest rates.</p> <p>The definition of growth assets was discussed. One initial finding from survey responses had been uncertainty about the inclusion of high yield credit in the asset allocation model. The range of possibilities within the term "absolute return funds" had also raised some questions.</p> <p>The proposed alternative asset allocation for the Post Office sections was discussed further. It would be possible to increase returns slightly without increasing volatility by adopting this investment strategy. It was finally agreed that the current restriction on investing in property should be removed and consideration should be given to .</p> <p>The Board then discussed the Pension Committee's recommendation to adopt a trigger mechanism to manage the Post Office sections' exposure to index linked gilts. Detailed information had been provided by AON Hewitt to support this recommendation and, after discussion, the recommendation was <u>approved</u> by the Board.</p> <p>Directors reiterated that the investment strategy proposed depended on the implementation of Project Robin. If the buffer to be produced by Project Robin was not forthcoming, the rate of contributions would need to be very different and the investment strategy would be rethought completely because of the different circumstances.</p> <p>A draft term sheet had been provided for information setting out the</p>

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ACTION: Susan Crichton	(i) (j)	current basis under which negotiations were progressing on Project Robin. The Board asked for Susan Crichton to provide a paper to the January Board meeting on the status of the negotiations to date, the Shareholder's views and any implications for State Aid discussions and confirming the timetable for delivering Project Robin.
POLB12/123		ANY OTHER BUSINESS
ACTION: Company Secretary	(a) (b) (c)	[Anything exciting here]. Alwen Lyons confirmed that the dates for Board meetings in 2013 would now be as set out in the document presented to the meeting. It was noted that Alasdair Marnoch would not be able to attend the November meeting. Some Committee dates (notably those for ARC) would be changed following further discussions with the respective Committee Chairmen.
POLB 12/124		ITEMS FOR NOTING
	(a)	The Significant Litigation report was <u>noted</u> . Alwen Lyons gave a brief update on Second Sight's progress with the Horizon work.
	(b)	The Board noted the Report on Sealings and <u>resolved</u> that the affixing of the Common Seal of the Company to the documents set out against items numbered 823 to 833 inclusive in the seal register is hereby confirmed.
	(c)	The proposal to update and increase the limits of delegated authority was <u>approved</u> .
	(d)	CD noted that the ARC had discussed the proposal set out at the last Board meeting to set up two uncommitted loan facilities of up to £50 million each for short term funding flexibility, such that no more than £50 million would be able to be drawn down at any time. The proposal had been approved by the ARC but would require a formal resolution by the Board to satisfy the counterparties' requirements. It was agreed that the following approved wording should be included in the minutes of the meeting: After due and careful consideration of all the circumstances, the Board

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		<p>expressed the opinion that it was satisfied that it would be most likely to promote the success of the Company for the benefit of its members as a whole to enter into:</p> <ul style="list-style-type: none">(i) a letter in the form produced from The Royal Bank of Scotland plc (the “Bank”) in respect of the uncommitted revolving credit facility of £50,000,000 made or to be made available to the Company by the Bank; and(ii) a similar letter to be issued by Citibank in respect of a further uncommitted revolving credit facility of £50,000,000 to be made available to the Company by Citibank”. <p>It was <u>resolved</u> that, in addition to and without amending, prejudicing or revoking any Bank Mandate / Company Excerpt Minute or any other instruction/s provided or to be provided by the Company to the Bank, the CFO (Chris Day) and the Head of Corporate Finance (Charles Colquhoun) be and are hereby authorised to enter into facilities and to sign and deliver any documents required in connection with loan facilities up to a maximum of £100 million, on behalf of the Company.</p>
POLB12/125		<p>CLOSE</p> <p>There being no further business, the meeting was then closed.</p>