

Post Office Limited – Strictly Confidential

POLB 16(3rd)
POLB 16/16 – 16/25

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

Minutes of a Board meeting held at 9.00am on 21 March 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman (<i>Minutes POLB 16/19-16/25</i>)
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
Martin Edwards	Director of Strategy (<i>Minute POLB 16/19 only</i>)
Dave Carter	Group Financial Controller (<i>Minute POLB 16/19 only</i>)
Mark Ellis	Supply Chain Director (<i>Minute POLB 16/20 only</i>)
Nick Kennett	Financial Services Director (<i>Minute POLB 16/22 only</i>)

POLB 16/16

INTRODUCTION

- (a) In the absence of the Chairman Ken McCall, Senior Independent Director took the Chair, noted that a quorum was present and opened the meeting.
- (b) Each Director confirmed that they had no conflicts of interest in relation to the business to be considered at the meeting.

POLB 16/17

MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

Minutes

- (a) The minutes of the meeting of the Board held on 22nd January 2015 were approved as accurate records and the Chairman was authorised to sign them.
- (b) The minutes of the Audit, Risk and Compliance Committee meeting held on 10th November 2015 were noted.

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Status Report

- (c) POLB 16/10 (c) – The Board noted the options set out in the Prosecutions Policy paper and endorsed the publication of the policy on the Post Office’s website.
- (d) POLB 15/102 (d) – The Board noted the paper provided. The CFO said that the approach to suppliers covered cyber security as a whole and not purely Distributed Denial of Service (DDoS) risk.

ACTION: CFO

Provide a list of the Top 20 suppliers to the ARC

ACTION: CFO

The CEO proposed that a supplier strategy be presented at a future ARC covering the Top 20 Supplier relationships and Supplier compliance.

- (e) The Board noted the Status Report dated 14/03/2016.

POLB 16/18

CEO REPORT

CEO Report

- (a) The CEO introduced the CEO Report, focusing on the following key points:
 - Scorecard performance
- (b) The CEO believed that the Business was now well placed to hit the financial target for the year and that the 6000th transformed branch would be opened before the Easter break.

ACTION: CEO

The Board asked the CEO to pass on their congratulations to Kevin Gilliland and the Network Transformation team for the excellent result.

Project Paddington

- (c) The CEO explained that Project Paddington, the proposal to continue the relationship with WHSmith for further Crown franchising and hosting, would need email approval by the Board within the next three weeks. The CEO assured the Board that this was a no regrets decision and that the hosted branches option did not prevent a future more radical Crown solution.

Project Pathfinder

- (d) The CEO explained that the pension consultation period had been extended by a month to take account of a request for more time from individuals affected; the timing of triannual scheme evaluation; and to enable a considered view on the effect of any IRIS announcement.

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- (e) The CFO clarified that the consultation extension did not necessarily lead to changing the August implementation date if the proposal was accepted by the Trustee. He explained that the Business needed to be sure that the IRIS redundancies did not have a significant effect on the consultation. The Board acknowledged that the timing was complex and asked Virginia Holmes to review Pathfinder in light of IRIS, and to opine on how the Trustee is likely to respond.

ACTION: NH

Neil Hayward to consult Virginia Holmes on Pathfinder in light of IRIS, and to opine on how the Trustee is likely to respond.

Ministerial Meeting.

- (f) Richard Callard reported that the Minister had recently met Brian Scott, Unite, and that they had discussed both franchising and pensions. The Minister had taken the line that these were commercial decisions for the Board and the Executive.
- (g) Transformation Report
The CEO explained that the transformation plans were being rebased after the Trinity project. It was agreed that the IT strategy would be presented at the July Board.

ACTION: CFO

The IT Strategy would be a topic for discussion at the July Board meeting.

- (f) The Board noted the CEO report.

POLB 16/19

APPROVAL OF ONE YEAR OPERATING PLAN AND BUDGET 2016/17, THREE YEAR PLAN AND APPROVAL OF RELEASE OF BUDGET INFORMATION TO SHEX FOR FUNDING OBLIGATION

- (a) The Chairman welcomed Martin Edwards, Director of Strategy, and Dave Carter, Group Financial Controller, to the meeting.

Period 11 Financial Results

- (b) The CFO introduced the Period 11 Financial Results. The Board acknowledged the EBITDAS performance for 2015/16, recognised that this had been driven by cost reduction and asked whether this delivered the necessary growth and run rate for 2016/17. The CFO explained that over the next two years he expected slight income decline during a period of right sizing the cost base, but that the year-end run rate for 2015/16 was consistent with the budget for 2016/17.

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- (c) The Board noted the Period 11 Financial Results.

2016/17 Budget and 3 Year Plan

- (d) The CFO introduced the 2016/17 budget and 3 year plan.
- (e) The proposed budget and year 2 of the three year plan were aligned with the rebased funding targets agreed with ShEx, being an EBITDAS targets of -£10m in 2016/17 and +£28m in 2017/18. Year 3 of the plan was outside of the existing funding agreement.
- (f) Tim Parker joined the meeting.
- (g) The Board questioned the shape of the income in the 3 year plan which remained flat for 2 years and then showed significant Financial Services (FS) growth. Martin Edwards explained that year 3 of the plan included £15m FS income from the buyout of Junction.
- (h) The CFO explained that the next 2 years were the main focus of the plan as these years aligned to the current Government funding agreement. The Executive and ShEx would start to consider the next funding agreement in the summer after the Board strategy day.
- (i) The CFO noted that there was considerable risk in achieving the -£10m target in 2016/17 and therefore the Group Executive was in the final stage of agreeing more stretching cost targets to mitigate that risk.
- (j) The Board approved the 2016/17 budget.
- (k) The Board approved the 3 year plan and noted that the plan would be overlaid by the new Strategic Plan.
- (l) The Board discussed the 2016/17 scorecard and the proposal to have EBITDAS as the only target aligned to the STIP (Short Term Incentive Payment). The CFO explained that the GE had discussed this proposal and agreed that it should be recommended to the Board as a 1 year proposal to support the rightsizing of the cost base.
- (m) The CEO assured the Board that she and the Executive recognised the need for a balanced scorecard including customer, people and operations targets and that GE personal objectives for 2016/17 would also include attestation for the areas of risk for which they are accountable.
- (n) Richard Callard reminded the Board that the Government had to approve STIP measures and targets and that they

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may prefer to continue with a Network Transformation element as this related directly to the funding.

- (o) The Board approved the 2016/17 scorecard and noted that the bonus structure, thresholds and targets would be discussed at the Remuneration Committee on 12th April.

Release of Budget information to ShEx to fulfil the funding obligation

- (p) The Board approved the release of the 2016/17 budget information submission to ShEx in order to release the Government funding.
- (q) Martin Edwards and Dave Carter left the meeting.
- (r) Tim Parker took over the role of Chair.

POLB 16/20**PROJECT IRIS**

- (a) The Chairman welcomed Mark Ellis, Supply Chain Director, to the meeting.
- (b) Mark Ellis explained the work undertaken since the January Board to finalise the options considered, confirm the business case benefits, and build and test the contingency plans. The implementation plan had been shortened from 10 to 7 months.
- (c) The Board recognised that implementation of IRIS was going to be difficult and asked, in the event of Industrial Action (IA), if there were other areas, such as marginal outsourcing which should be included in the proposal. Mark Ellis accepted that there were other changes to ways of working which could have been considered. However he recommended that these be implemented at a later stage as no guarantees were being given for future ways of working.
- (d) The CFO stressed that if IA led to changes such as postmasters managing their own cash, this may be a template for the future and could lead to completely new ways of working.
- (e) The Board asked if consideration had been given to further reducing the number of depots and closing the difficult sites in London. Mark Ellis explained that modelling had shown the optimal number of sites to be 14-16 and that the plan was to keep 15 depots. A proposal for fewer, larger depots had been considered but discounted because of the capital expenditure required. The Business needed a depot in

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London and had chosen to close Dartford and keep East London open.

- (f) Mark Ellis explained that any IA would put pressure on the quality of service to the largest 30 external customers, who make up 75% of the revenue. It was expected that this revenue would be lost quickly.
- (g) The Board discussed the pension consultation and IRIS announcement timings as debated earlier in the meeting, with the action for Virginia Holmes to opine.
- (h) Mark Ellis assured the Board that Security and Health & Safety issues had been considered and addressed in the contingency planning.
- (i) The CEO stressed that ShEx and the Minister were sighted on the plans and were supportive. Richard Callard suggested that the Executive include briefing DWP as part of the stakeholder plan.

ACTION: ME**Include DWP briefing in the IRIS stakeholder plan.**

- (j) The Board approved the recommendation to restructure the Supply Chain and exit the external market whilst noting that this was likely to trigger prolonged, public industrial action.
- (k) The Board approved the immediate next steps including contingency preparations, conversations with Government and a scene setting conversation with the Unions. Subject to discussions regarding the pension consultation.
- (l) The Board approved the proposed negotiating mandate.
- (m) ME left the meeting

POLB 16/21**ITEMS FOR NOTING****Cash and Working Capital**

- (a) The CFO introduced the Cash, Working Capital and Headroom paper. The Board discussed the paper and agreed that more focus would be required on cash in the future with the possibility of it becoming a bonus worthy objective as headroom tightened.
- (b) The Board noted the paper.

Trinity Contract

- (c) The CFO introduced the project Trinity paper and updated the Board on a FOI request received from a legal firm. The

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GC would lead on the response to the request ensuring any commercial information was redacted.

- (d) The Board noted the progress made.

Sealings

- (e) The Board resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1379 to 1399 inclusive in the seal register is hereby confirmed.

POLB 16/22**ITEMS FOR RATIFICATION****CSC Contract Extension**

- (a) The CFO introduced the CSC Contract Extension paper and explained the rationale behind extending the CSC contract for two years.
- (b) The Board approved the award of a two year contract extension to CSC at a cost of £9m, delegating authority to the CEO or the CFO to sign the contract.

Fuel Contract

- (c) The Board approved a new contract with a maximum term of five years and a maximum cost of £10m and delegated authority to the CEO and CFO to sign a contract within these parameters.

Bank of Ireland (BoI) Contract

- (d) The Chairman welcomed Nick Kennett, Financial Services Director to the meeting.
- (e) Nick Kennett explained the short term agreement negotiated with the Bank of Ireland (BoI) which is targeting to generate an additional £9.5m income to Post Office in 2016/17; in receiving this payment, Post Office will support BoI reduce the size and cost of its liability balance sheet. The additional income is included in the 2016/17 AOP.
- (f) The agreement also included an extension from two to four years of the run-off processes in the FSJVA contract if Post Office were to advise BoI from 2021 that it is exiting Financial Services. This extension supports BoI Treasury manage the risks associated with Post Office exiting, with the impact on Post Office being negligible as it pre-supposes that Post Office had made the strategic decision to exit the personal financial services market. Post Office would receive income over four, rather than two, years.
- (g) Nick Kennett also assured the Board that this agreement did not affect any negotiation regarding FRES or the wider FSJVA; he confirmed that the core exit/termination

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provisions, were Post Office to remain in Financial Services, are unchanged.

- (h) The Board approved the proposed agreement with BoI and authorised the CFO and Director of Financial Services to finalise the terms of the arrangement with BoI and FRES, approve the form of legal agreement to give effect to the arrangement and sign any such agreement(s) in accordance with Post Office's usual procedures.
- (j) Nick Kennett left the meeting

POMS Articles

- (k) The Board approved the specified amendments to the POMS articles as set out in Appendix A of the paper.

POLB 16/23**VERBAL UPDATES FROM BOARD COMMITTEE CHAIRS****Remuneration Committee (RemCo) Update**

- (a) Ken McCall gave a verbal update from the RemCo meeting held on the 9th February 2016.

The main areas the meeting covered were:

- The letter to the Minister regarding bonus claw-back for the Postmaster Compensation provision error.
- Directors' remuneration report and key trends in the market.
- LTIP trends in the market place and design principles.
- The need to recalibrate the LTIP to provide meaningful incentives.

The Board noted the update.

Nomination Committee (NomCo) Update

- (b) The Chairman gave a verbal update from the NomCo meetings of 25th November 2015 and 9th February 2016.

The main areas the meetings covered were:

- Appointment of two new NEDs.
- Confirmation of Board Committee membership.
- Recruitment of a Digital Director and Sales Director.
- Changes to the senior leadership population and introduction of the L300 group.

The Board noted the update.

Audit, Risk and Compliance Committee (ARC) Update

- (c) Carla Stent gave a verbal update from the ARC meeting held on the 17th March 2016.

The main areas the meeting covered were:

- Update from the POMS ARC Chair and the relationship with POMS.

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- Risk & Controls framework update. Two new risks were included; Health & Safety and Pensions.
- Report & Accounts corporate governance statement agreed.
- Approved the internal audit plan including a cyber-security audit.
- Year end audit discussed with Ernst & Young (EY) and the audit partner challenged to explain how the audit would be more effective this year.

The Board asked what Health & Safety issues had moved the risk to Amber on the risk register. The CFO explained that the new Director of Property was putting new processes in place to manage 3rd parties, the issues raised by these processes had been included on the agenda of the Executive Health & Safety Committee. Until this was complete the risk should remain as Amber.

The Board noted the update.

Post Office Advisory Council (POAC) Update

- (d) Tim Franklin gave a verbal update from the POAC meeting held on the 17th March 2016.

The main areas the meeting covered were:

- The network branch proposition was debated with input from the Business, Onestop and an independent postmaster.
- Input from the Council on customer and retailer proposition.
- Review of Council membership – everyone has asked to stay on the Council – they are invaluable source of feedback.

ACTION: CoSec**Circulate the POAC minutes to the Board**

The Board noted the update and that POAC is an agenda item at the next Board meeting.

POLB 16/24**ANY OTHER BUSINESS****Sale of tax losses to FRES**

- (a) The CFO explained the opportunity to sell £50m of Post Office tax losses to FRES which would generate £10m of income. This was the limit which could be sold under HMRC rules.
- (b) The Board approved the sales of tax losses to FRES.

POLB 16/25**CLOSE**

- (a) There being no further business, the Chairman declared the meeting close.

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Tim Parker

Chairman

24/5/16

Date