

Strictly Confidential

POLB 16(9th)
POLB 16/72 – 16/84

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

Minutes of a meeting of the BOARD
held at 11.15 am on 24th November 2016 at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman (TP)
Richard Callard	Non-Executive Director (RC)
Virginia Holmes	Non-Executive Director (VH)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Senior Independent Director (KM)
Carla Stent	Non-Executive Director (CS)
Paula Vennells	Chief Executive (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)

In Attendance:

Alwen Lyons	Company Secretary (CoSec)
Martin Edwards	Director of Strategy (ME) (Minute POLB 16/76 and 16/78)
Martin George	Commercial Director (MG) (Minute POLB 16/78)
Mark Siviter	Head of Mails (MS) (Minute POLB 16/78)
Tom Wasilewski	Senior Product Manager - Mails (TW) (Minute POLB 16/78)
Nick Kennett	Financial Services Director and CEO of POMS (NK) (Minute POLB 16/79)
Rob Houghton	Chief Information Officer (CIO) (Minute POLB 16/80)
Angela Van Den Bogerd	Director of Support Services (AVDB) (Minute POLB 16/80)

POLB 16/72 INTRODUCTION

- (a) A quorum being present, the Chairman opened 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 16/73 MINUTES OF THE PREVIOUS BOARD MEETING AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

- (a) The minutes of the Board meeting held on 25th October 2016 were approved as presented and the Chairman was authorised to sign them as a true record.
- (b) The minutes of the Audit, Risk and Compliance Committee meeting held on 28 September 2016 were noted by the Board.

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- (c) The actions status report was noted as accurate.
- (d) Action POLB 16/57 - The Board noted the update on the opportunity to offer the NHS a drug distribution service.

POLB 16/74

CEO REPORT

- (a) The CEO introduced the CEO Report focussing on the following key points.
- (b) Period 7 Results: The CEO was pleased with the performance during the period and continued to be confident of delivering the -£10m EBITDAS target, but stressed that good Christmas trading would be crucial.
- (c) Industrial Relations: The CEO explained that, to date, no further strike notification been received from either the CWU or Unite, but that the ballots remained active. The CEO had met both Andy Furey and Terry Pullinger from the CWU.

ACTION: MS

The Board discussed the industrial relations at Royal Mail and the effect any action would have on the Post Office. **The Board asked the Executive to test the Royal Mail contract to see if it allowed the use of other carriers in the event of a strike.**

- (d) Pensions: The CEO updated the Board on the pension briefing sessions provided for those affected by the decision to close the defined benefits pension scheme. The Pension Trustee executive have agreed in principle that information on the scheme surplus can be made available before Christmas.
- (e) Parliamentary Activity: The CEO was pleased with the Westminster Hall debate and the support that Margot James, the Parliamentary Under Secretary of State, Minister for Small Business, Consumers and Corporate Responsibility, had given to the strategy and particularly the Directly Managed changes.

ACTION: RC

- (f) **The Board asked Richard Callard to circulate to the Board the BEIS report on the Post Office.**
- (g) Supply Chain: The Board asked if the revenue loss from the closure of the external business was in line with the forecast. The CFO assured the Board that the revenue was in line with projections and that the payment of final bills was being monitored as it represented the next key risk.
- (h) The Board asked for assurance that the focus on Health & Safety had not been diluted during the Supply Chain changes. The CFO reported a continued focus on Health & Safety as drivers moved to new routes.
- (i) The Board noted the report from the CEO.

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POLB 16/75

FINANCIAL REPORT

- (a) The CFO introduced the Financial Performance Report for Period 7, the EBITDAS for the period was £1.4m ahead with an underlying favourable performance of £700k. The EBITDAS forecast outturn was to deliver the target of -£10m and this now included a provision of £1m for a possible HMRC fine.
- (b) The 2017/18 EBITDAS target of £28m remained very stretching which was why the CFO was focussed on the exit rate for the current year and announcing cost reduction changes in January, to start the 90 day union consultation process for redundancies.
- (c) The CFO would bring the budget proposal for 2017/18 to the January Board.
- (d) The Board asked why the lottery results continued to be below target. The CFO explained the systematic trend caused by three actions by Camelot; to actively move customers on line; to open new outlets with the resultant reduction in Post Office market share; and the lower prizes which has reduced customer demand.
- ACTION:CFO** (e) **The Board asked the CFO to include more commentary from the business on revenue outturn and trends to enable the Board to understand how the key business areas are performing.**
- ACTION: CFO** (f) **The CFO agreed to consider whether FS and Mails would be invited to report to the Board on a quarterly basis to present the opportunities and challenges.**
- ACTION: KG** (g) **The Board asked the Executive to provide a paper for discussion at the Board on footfall trends, the relationship to propensity to spend, and revenue.**
- (h) The Board noted the Financial Report from the CFO.

POLB 16/76

UPDATE ON FUNDING PROCESS

- (a) The Chairman welcomed Martin Edwards, Director of Strategy, to update the Board on the funding process.
- (b) ME reported the meetings with KPMG and the work underway on the baseline and strategic overlays of the funding document. KPMG would now look at the sensitivities of the scenario analysis provided.
- (c) The Chairman and CEO had a meeting planned with the Minister to take her through the high level strategy, and the CEO and Communication and Corporate Affairs Director were planning to meet the Prime Minister's business advisors, to promote the public sectors turn around narrative.

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- (d) The Board asked if the funding narrative needed to be repositioned to take into account Brexit or the Chancellor's Autumn Statement. ME acknowledged the need to ensure the funding was aligned with the Government's industrial strategy including; improved productivity; a SME focus; keep local communities viable; and supporting those who are Just About Managing.

ACTION: ME

- (e) **ME would recirculate the final funding paper to the Board.**
- (f) The board noted the verbal update.
- (g) ME left the meeting.

POLARC 16/77**BOARD EFFECTIVENESS REVIEW INTRODUCTION**

- (a) The Board received a report from the Company Secretary explaining the process for the Board Effectiveness Review.
- (b) The board noted the Board Effectiveness Review plans for December 2017.

POLB 16/78**MAILS UPDATE**

- (a) The Chairman welcomed Martin George, Commercial Director, and Mark Siviter, Head of Mails, Tom Wasilewski, Senior Product Manager, and Martin Edwards to the meeting.
- (b) MS updated the Board on the trading position for Mails which was £3m above budget at the end of period 7, with strong growth in international mail, home shopping returns and upselling to tracked products. Stamps continued to decline along with a switch from 1st to 2nd class labels.
- (c) The Board asked what additional income would be generated with an improvement in upselling. MS explained that the aim was always to sell the right product to fulfil the customer need but thought that if this was done consistently in the network this might generate an additional £2-5m.
- (d) **KM offered to share information on a company he had worked with who had expertise in the area of upselling. MS thanked him and would ensure that Owen Woodley, Sales Director, contacted KM.**
- (e) MS explained that before the start of the peak Christmas period improvements had been made to home shopping returns and Post & Go processes.
- (f) The Board discussed the changes in the mails market and the Royal Mail Group (RMG) half year results. MS explained the joint strategic work underway with RMG and admitted that RMG had taken some time to engage in the process. He was now pleased that the work was underway and sponsored by the CEOs of both businesses. RMG had agreed to work on a joint

ACTION: MS

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vision and strategy, before any longer term structure or contract was discussed.

- (g) The Board agreed that the Executive should continue to develop the twin track of working with RMG whilst understanding the next best alternatives for both Post Office and RMG. The Executive would need to be ready to act quickly in the event of a change of RMG policy.
- (h) The CEO did not think that a JV or financial partnership with Post Office was currently on the RMG agenda or that they had a plan B which excluded the Post Office, however she stressed the importance of continuing to manage the business as usual agenda and the RMG strategy work, whilst working separately on the options for Plan B.
- (i) MS explained that legal advice was being taken on the exclusivity clause in the RMG contract to understand the constraints on soliciting a third party mails provider.
- (j) The Board asked for an update on the Small Business Club which was allowed by the current RMG contract and recognised as a way of building a customer data base. MS explained that some progress had been made but that further IT developments were required. The CEO promised that as soon as the technology solution was available the work would commence.
- (k) The Board discussed the RMG Industrial Relations landscape and the effect strikes would have on the Post Office.
- (l) The board approved the approach and next steps proposed in the report.
- (m) MG, MS, TW and ME left the meeting.

POLB 16/79

POMS HALF YEAR REPORT TO THE SHAREHOLDER, & UPDATE ON PROJECT PEREGRINE.

- (a) The Chairman welcomed Nick Kennett, CEO of POMS and Group Director Financial Services of POL to the meeting.
- (b) 2016/17 POMS Half Year Report to the Shareholder
NK (POMS CEO) presented the half year results to the Board and was pleased that POMS was now well established; ahead of the original Hawk business plan; and on course to hit its long term targets albeit adverse to the EBITDAS target in the year.
- (c) NK explained that the key risk and regulatory concern for POMS remained the operational oversight by POL of its branches. NK also had concerns about prospective changes to the Financial Specialist sales model and its potential impact on POMS' revenue. The Board asked for more information from a POL perspective and NK (as FS Director) explained the economics of the Financial Specialists which is significantly loss making; Network is seeking to replace this fixed cost with the variable

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cost CRM model in agency branches. He recognised the economic challenge of the loss making FSs but recognised that it could have an adverse effect on POMS.

- (d) The Board asked if moving to the CRM model reduced the conduct risk for POMS and POL and NK explained that the CRM was a guided sales model and therefore had a reduced risk as long as the CRMs followed the model correctly.

ACTION: NK

- (e) The Board asked that the CRM model risk be picked up at the ARC meeting.

- (f) The Board asked if the tie up between products such as Foreign Exchange (FX) and Travel Insurance were effectively coordinated between POMS and POL. NK assured the Board that the products were coordinated and that the current FX budgets for next year are being agreed with FRES. He added that by example the travel insurance campaign this summer was tied to purchases of travel insurance.

ACTION: NK

- (g) The Board asked if FRES had looked at partnerships with airlines or airports. NK explained that both areas had been explored but that the economics had not worked, but recognised that rental companies may be an area for FRES to reconsider.

- (h) The Board asked what had changed against the original Hawk plan and the CFO explained that as the plan had been delivered the value chain accretion had become clearer and driven a more accurate forecast of future value.

- (i) The Board noted the half year POMS report.

Project Peregrine update

- (j) NK was disappointed, but not surprised, by the Bol response to the Peregrine proposal. He planned to approach Bol again to reiterate the need for change, whilst using the existing contract to drive as much change as possible and to push Bol to deliver their commitments.

- (k) The Board stressed that NK should be the single point of contact with the Bol and supported the approach to Peregrine.

- (l) NK left the meeting.

POLB 16/80

BACK OFFICE TRANSFORMATION (BOT)

- (a) The Chairman welcomed Rob Houghton, CIO and Angela Van Den Bogerd, Director of Support Services to the meeting.
- (b) The CFO introduced the BOT and explained the three options which had been considered. The CIO stressed that the proposed approach would develop and test the project in stages, and that each development would not be released until it was proven to work.

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- (c) AVDB explained that the programme was business led with support from the technical team.
- (d) The Board asked if SLAs were in place to ensure that Accenture delivered their work on time.
- ACTION:CIO** (e) **The CIO acknowledged that SLAs and time penalties had not yet been agreed with Accenture and recognised the need to ensure that Accenture were incentivised to deliver on time.**
- ACTION: All** (f) **The Board asked that in future any governance structure charts contained in papers include the names of those accountable for the work.**
- (g) The Board discussed the probity of the Financial reporting system and the risk of double counting as products migrate onto the new system. The CFO explained that as the systems developed all the data and settlement would be done by one system which would reduce the need for manual intervention. The change would be done product by product to enable the overall project lead to monitor the migration.
- (h) The Board approved the preferred Option 3 budgeting for costs of £20m as detailed in the report.
- (j) The Board noted the approved spend to April 2017 and requested an update together with any future funding requests in March-April 2017.
- (k) The CIO and AVDB left the meeting.
- POLB 16/81 THE ACQUISITION OF BROADBAND CUSTOMERS FROM NEW CALL**
- (a) The board received a report from the Company Secretary.
- (b) The Board ratified its decision to delegate authority to the Chief Executive Officer and the Chief Financial Officer to proceed with negotiations and sign a contract for the acquisition of 78,000 Broadband customers from New Call, which trades under "Fuel Broadband".
- (c) The CFO explained that the Executive were still negotiating the deal with New Call and would return to the Board if the final economics differed by more than 10% from the business case ratified by the Board.
- POLB 16/82 ITEMS FOR NOTING**
- Sealings
- (a) The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1454 to 1461 inclusive in the seal register was confirmed.

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- (b) Health and Safety
The Board noted the safety and wellbeing performance, risks and mitigating activity within the Health and Safety report.

ACTION: CFO

The Board asked if cameras were used in Supply Chain cabs to ensure that drivers were following the rules not to use mobile phones whilst driving. The CFO was asked to check what monitoring was in place.

- (c) Date of Next Meetings
The Board noted the future meeting dates.

POLB 16/83

BOARD COMMITTEE CHAIR VERBAL UPDATES

- (a) Audit, Risk and Compliance Committee (ARC)
The Chair of the ARC (CS) updated the Board on the meeting held on 17 November.

Good progress had been made on financial controls, director attestation, contract management and perimeter controls. However the ARC had now asked to see less reports on process and framework and more of a focus on the top risks for the business.

The ARC had received its first report on Transformation Risk. Two policies were approved and one, the Treasury policy, was recommended to the Board.

- (b) Nominations Committee (NomCo)
The Chairman of the NomCo (TP) briefed the Board on the meeting held on the morning of 24th November, at which the HR Director Appointment had been confirmed.

The CEO circulated the proposed new Group Executive structure which had been discussed at the NomCo and explained the changes, which were noted by the Board.

- (c) Remuneration Committee (RemCo)
The Chairman of the RemCo (KM) briefed the Board on the meeting held on the morning of 24th November, at which the salary for the HR Director had been confirmed, and STIP and LTIP had been discussed.

PwC the new remuneration advisors had attended the meeting and presented a new remuneration comparator group based on 40% mails group, 40% social purpose group and 20% financial services group.

- (d) Post Office Advisory Council (POAC)
The Chairman of the POAC briefed the Board on the meeting held on 3rd November, at which 4 new members had joined the Council. The meeting had received an update on the Banking Services Framework and had participated in a working session on making Post Office 'Simpler to run'.

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POLB 16/84

ANY OTHER BUSINESS

- (a) The CEO updated the Board on the two legal cases:
- Sparrow which was expected in January.
 - Choice Money who had lost their case against the Business. The supply chain service would cease on the 26th November, and although Choice Money could appeal this was unlikely to be successful.
- (b) There being no further business the Chairman closed the meeting.

GRO

Chairman

31st January 2017 .
Date