

Post Office Limited – Strictly Confidential

POLB 15(2nd)
POLB 15/24 – 15/44

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

Minutes of a Board meeting held at 9.45am on 25 March 2015
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive
Alisdair Cameron	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Jane MacLeod	General Counsel
Nick Kennett	Director, Financial Services (minute POLB 15/26 & 15/27)
Martin George	Director, Commercial (minute POLB 15/30 only)
Geoff Smyth	Head of Telecoms (minute POLB 15/30 only)
Mark Davies	Director, Communications & Corporate Affairs (minute POLB 15/32 only)

POLB 15/24

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and welcomed Jane MacLeod, General Counsel, who had been invited to join the meeting as an observer.
- (b) The Chairman asked for recognition and thanks to be passed on to Chris Aujard, the interim General Counsel and Belinda Crowe, Head of the Sparrow project, as both were leaving Post Office Limited (POL).

POLB 15/25

CEO'S REPORT

- (a) The CEO introduced her report and focused on the following key areas:
 - POL had signed a framework agreement with the Government to ensure that POL continued to be one of the providers of Verify, the new Identity Assurance service.
 - The Secretary of State's visit to a Post Office in Hackney on the 26th March to announce the protocol for future Banking Services. Whilst POL welcomed this initiative it had made it clear that the work needed to be properly remunerated.
 - POL had signed a new seven year extension to the POca contract.

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- The engagement survey had shown an improvement in both employee and subpostmaster results, with a 10 per cent improvement from subpostmasters running the transformed local and main branches.
- The CEO recognised Kevin Gilliland, Network and Sales Director, for delivering the Network Transformation targets, and the Board acknowledged the outstanding performance.
- The CEO thanked the General Counsel, the Director of Communications & Corporate Affairs, and their teams for the progress with Sparrow.

- (b) The first anniversary meeting of the Post Office Advisory Council (POAC) had taken place on the 19th March, and the CEO thanked Tim Franklin, the POAC Chairman, for an excellent meeting. Tim Franklin agreed that the POAC was working well and that there had been extremely helpful contributions from the Minister and the CEO as well as a plenary session on the Post Office Vision. It was agreed that now that POAC was well established, POL should consider how to get best use out of the Council. Board members were invited to attend a future POAC and the Company Secretary would circulate the dates.

ACTION: CoSec

- (c) The CEO and the Chairman had attended a meeting with Christopher Fisher, Chairman, and Des Crowley, CEO, of the Retail UK Division of the Bank of Ireland. Both had been very positive about the relationship with POL and thinking about the long term strategy post 2023. The CEO would circulate to the Board the note of the meeting.

ACTION: CEO

- (d) The CEO was hopeful, after a more positive meeting between herself and the CFO with Moya Greene, CEO, and Matthew Lester, CFO, Royal Mail Group (RMG), that RMG had recognised the effect on their business of the changes in the retail mails market. It was made clear that RMG would like to renegotiate the MDA and discuss exclusivity, and RMG was under pressure from the regulator as well as from competitors. The POL team had reserved its position on renegotiating the MDA and would not agree to this unless and until they were ready to do so.

- (e) The CEO reported that David Hussey would be joining POL in the third week of April as the new Transformation Director, enabling a handover period with David Ryan. The Board asked for a structure chart showing how all the Business Transformation activities and big projects linked together, explaining how they would be managed and resourced in the context of the new change management process.

ACTION:
David Ryan

POLB 15/26

PROJECT HAWK

- (a) The Board welcomed Nick Kennett, Director, Financial Services, to the meeting.
- (b) Nick Kennett gave the Board an update on Project Hawk, and

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explained the process undertaken since the Board discussion and mandate given at the July 2014 Board. He was pleased to report that the Independent Insurance Expert (IIE) had valued the insurance business at £43.9m: below the previous valuation estimate of £45-55m. The CFO explained that the Post Office had calculated its own updated valuation prior to the IIE process and that he would have been comfortable with any value up to £60m and would certainly support anything below £55m.

ACTION:
Nick Kennett/CFO

- (c) The Board noted the mandate of £40m given to POL in July 2014 and that the FS Committee had considered the proposition in more detail. Alasdair Marnoch, Chairman of the ARC, asked for a briefing to give him comfort on the £43.9m price and how POL would measure the delivery of value against this investment.

- (d) Nick Kennett explained that opportunities in the investments market were hampered by the exclusivity in the Bank of Ireland (BoI) contract. He clarified the proposal for the BoI to buy a small share in POMS and the effect this would have on Hawk, as explained in the paper. POL could not progress in the investments market without the BoI under the current contract.

- (e) The Board asked if Nick Kennett believed he could construct and negotiate a deal which ensured no material restrictions to the POMS controls and consents. Nick Kennett recognised that as a result of acquiring a minor shareholding, the BoI would have protections for minority rights but that this would not in his view hamper POL control.

ACTION: CoSec

- (f) Richard Callard asked the Executive to check whether POL has the authority under the articles of association to 'sell' a share of a subsidiary to a third party without Secretary of State consent. He also asked the Executive to discuss any proposal for independent external funding to be discussed with the Shareholder Executive.

- (g) The Board recognised the complexity of standing up POMS by the 1st of May whilst negotiating the acquisition of the General Insurance business from BoI, including, if relevant, the grant of a small share of POMS to the BoI. Nick Kennett explained that the two proposals did not need to run consecutively and that Hawk would continue irrespective of the POMS structure issue.

- (h) The Board asked for assurance that the Executive had the bandwidth and capability to continue with POMS and to negotiate an acquisition and integration into POMS. Nick Kennett reassured the Board that he had engaged KPMG, which was providing a programme manager, and [REDACTED]

ACTION:
Nick Kennett

- (i) The Board discussed POMS and the work necessary before May 1st. It was agreed that the POMS Board should go ahead with the appointment of Stephen Ashton as the POMS Chairman and to ask him to discuss with Julie Hope a possible NED position. It was also

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**ACTION: CoSec/
Nick Kennett**

proposed to invite Colin Stuart, POMS CFO, onto the POMS Board as an Executive Director. A POL Board call would be set up in April 2015 at which the POMS go live decision could be taken, this meeting would require a paper setting out the working and governance relationship between POL and POMS.

**ACTION:
Nick Kennett**

- (j) The Board recognised the additional complexity caused by the Bol contract expiry in 2023 and asked that the long term strategy be discussed at the Board away day in June 2015.
- (k) The Board:
 - agreed in principle that management should proceed to acquire the Bank of Ireland's share of the joint insurance business (Project Hawk), as set out in the Eagle Agreement, for £43.9m and that the acquisition be incorporated into Post Office Management Services Ltd;
 - agreed that a clear timeline be established for acquisition completion; and
 - noted the alternative solution, as set out in paragraphs 9.1 to 9.6 of the paper, and authorised the Executive to assess its validity, while continuing to complete Project Hawk.

POLB 15/27

STATUTORY REPORTING REQUIREMENTS FOR POST OFFICE MANAGEMENT SERVICES LIMITED

- (a) Nick Kennett, CEO POMS, presented to the Board the rationale behind the request to shorten the Accounting Reference Date (ARD) for the second Post Office Management Services Limited (POMS) accounting period to 30 November 2014 and then to extend the ARD for the third POMS accounting period to 27 March 2016.
- (b) The Board challenged whether the misaligned year end dates would add complexity into the financial reporting. It was acknowledged that this would save on audit fees for POMS. The CFO supported the proposal.
- (c) The Board agreed, pursuant to article 4.3(P) of the Articles of Association of Post Office Management Services (POMS), that POMS should:
 - shorten its Accounting Reference Date (ARD) for the second POMS accounting period to 30 November 2014; and
 - extend the ARD for the third POMS accounting period to 27 March 2016.
- (d) Nick Kennett left the meeting.

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POLB 15/28

FINANCIAL PERFORMANCE

- (a) The Chief Financial Officer (CFO), updated the Board on the 2014/15 financial performance and the scorecard for period 11. He reported that he was slightly more positive about hitting the EBITDAS target of £99m, subject to the period 12 trading number and the final audit. This was predicated on delivering some of the risks and opportunities.
- (b) The Board discussed the period 11 results and asked that future reports include: a greater focus on non-staff costs as well as staff costs; a summary high level analysis on cash; and the inclusion of product profitability when it becomes available during the year.
- (c) The Board noted the update on the 2014/15 financial performance and the scorecard for period 11.

ACTION: CFO

POLB 15/29

APPROVAL OF 2015/16 FINANCIAL PLAN AND SCORECARD

- (a) The Chief Financial Officer (CFO), presented to the Board for its approval the financial plan for 2015/16 and the key performance indicators (KPI) scorecard and short term incentive plan (STIP) bonus measures for 2015/16.
- (b) The Board was disappointed by the proposed plan and expressed its preference for a budget which included a flat year on year income target. There was concern that the plan no longer aligned to the growth strategy. The CFO noted that in his view this was a realistic and stretching budget.
- (c) The CFO reminded the Board that the current year had seen significant variance against plan and that the Board had asked for a more realistic budget for 2015/16. However, the Board asked the CFO to reconsider the income target and to hold it flat against this year's outturn, if necessary using some of the contingency in the plan. The CFO accepted the challenge and would revert on the matter after period 12 income results were available.
- (d) Richard Callard explained that continued failure to hit budget would be problematic and harder to explain to the Minister than a slight year on year decline in income. In his view EBITDAS was the more important measure.
- (e) The Board recognised that EBITDAS was the most significant measure for commercial sustainability and that the income target was being set on the current strategy.
- (f) The Board noted that it would discuss the three year operating plan in May and asked the CFO to consider a target of a zero EBITDAS and a flat cost base for 2016/17 as part of that plan.
- (g) The CFO also explained that POL was preparing for the new government and the possible requirements of a funding review. This work would form part of the first afternoon of the June away

ACTION: CFO**ACTION: CFO**

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day and would consider the options if the current funding was threatened, and any new funding requirement post 2018. He promised to circulate the review plan for discussion at the June Away day.

ACTION: CFO

- (h) The Board questioned the slowdown of NT conversions in 2015/16. The CEO explained that the Executive had wanted to continue with the current run rate, but had been asked by the Shareholder Executive to protect the promise made by the Minister that the 'cliff' would not be enforced until September 2015, Richard Callard confirmed that this was the case. It was acknowledged that an opportunity might exist with multiples and non-NFSP branches and that this would be investigated, and a note justifying the NT target circulated to the Board.

**ACTION:
Kevin Gilliland**2015/16 SCORECARD

- (i) The Board discussed the scorecard measures and proposed bonus worthy targets. The Executive had proposed threshold targets for Income and EBITDAS. It was acknowledged that whilst some businesses had threshold targets, these were not normal in the FS Industry and were becoming less prevalent in other organisations. Richard Callard understood why the Executive would like threshold targets but explained that Ministers and the Treasury did not like the concept as it was perceived as paying for failure. The Executive agreed to reconsider the use of thresholds in the scorecard.

ACTION: CFO

- (j) The Board supported the inclusion of a cash measure in the scorecard and asked the Executive to define the measure and to introduce a clear report on the movements in working capital, although there would not be a specific improvement target in 2015/16. The Board asked that cashflow target be included as one of the personal objectives for the CFO.

ACTION: CEO

- (k) The Board acknowledged that the digital net income measure would be an extrapolated figure based on volume and that the Executive would clarify the target.

ACTION: CFO

- (l) The Board asked that the FS compliance score be included as one of the personal objectives for Nick Kennett and Kevin Gilliland.

ACTION: CEO

- (m) The Board accepted that the subpostmaster engagement score should not be included as part of the bonus worthy targets until the number of surveys completed increased and the measure was more robust. The Board asked that an effective subpostmaster survey be included as one of the personal objectives for Neil Hayward.

ACTION: CEO

- (n) The Board asked that Richard Callard, Neil McCausland, Neil Hayward and the CFO reconsider the scorecard and targets in the light of the discussion and the 2014/15 outturn. Their proposal would be circulated to the RemCo and Board before formal submission to the Shareholder Executive.

**ACTION:
RC/NM/NH/CFO**

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POLB 15/30

TELEPHONY STRATEGY

- (a) The Board welcomed Martin George, Commercial Director, and Geoff Smyth, Head of Telecoms, to the meeting and received an update on the progress in reviewing the alternative strategic options for the telecommunications business (telco).
- (b) The Board discussed the telco business and the relationship with Fujitsu. Geoff Smyth explained that the service had lost 25k customers during the change of service provider in 2014/15, but that it had now stabilised and had grown by 5k customers in recent months and was on track to win back an additional 20k in 2015/16.
[REDACTED]
- (c) The Board recognised the value of the telco income and discussed the proposal to launch a trial of a mobile, sim-card only, proposition. Geoff Smyth explained that this would test the trading capability for a very simple product and POL's ability to respond effectively to a very dynamic market. The CFO reported that the contract with EE included termination costs of £7m, a similar figure to the dilution of the EBITDAS over the next two years before the product became profitable. He stressed the importance of the trial to test the proposition before any decision to roll out to the whole network, as this rollout could significantly increase the exit costs.
- (d) The Board:
- noted the update on strategic options for the telecommunications business as set out in the paper; and
 - agreed the proposed next steps as set out in the paper.
- (e) Martin George and Geoff Smyth left the meeting.

POLB 15/31

BOARD EFFECTIVENESS REVIEW

- (a) The Chairman updated the Board on the evaluation of its effectiveness carried out in January and February 2015.
- (b) The Board discussed the quality of the Board papers and the CEO stressed that those members of the Group Executive (GE) presenting papers realised that they were responsible for the quality of those papers. She acknowledged that there were inconsistencies in the quality and that papers were not always clear.
- (c) The Board asked that papers be more balanced, explaining the options available as well as the recommendations from the GE. Papers should not be presented for noting if they required a decision or comment from the Board.
- (d) The General Counsel proposed that that she and the Company Secretary take responsibility for the structure of the papers, ensuring clarity of purpose, an audit trail to previous Board discussions and links to the Board risk appetite.

**ACTION: GC/
CoSec**

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ACTION: CoSec (e) The Company Secretary would also provide a rolling forward agenda with each Board pack and detailed agendas for the next two meetings.

(f) The Board discussed the proposal to disband the FS Committee once the full POMS Board was up and running and to move the Committee's responsibilities to the POMS Board, the ARC and the Board as appropriate.

ACTION: GC [REDACTED] to be based on best practice in other companies which had a FS business as part of a wider portfolio of businesses. These recommendations, validated by a third party, would be presented to the Board at its April 2015 meeting when it would consider the POMS go live decision.

**ACTION: CoSec/
Alasdair Marnoch** (g) In due course, the Terms of Reference for the ARC would be amended to reflect the changes.

**ACTION:
Chairman/CoSec** (h) Other issues which had been identified as part of the review would be taken forward by the Chairman and Company Secretary as appropriate.

POLB 15/32**SPARROW UPDATE (VERBAL)**

- (a) The Board welcomed Mark Davies, Director of Communications and Corporate Affairs, to the meeting and received a verbal update from him and the General Counsel on Project Sparrow.
- (b) The Board thanked the Executive for progress being made and noted the verbal update on Project Sparrow.
- (c) Mark Davies left the meeting.

POLB 15/33**IT PROCUREMENT**

(a) The CFO explained that a paper would be presented at the May Board requesting authority for a significant IT procurement project and that the proposal in the noting paper had been for NED engagement to help the Executive understand any questions or concerns before the Board meeting.

**ACTION: CoSec/
Chief Information
Officer** (b) The Board agreed that it would prefer a short written update followed by an optional call which NEDs would join if they wanted further clarification.

(c) The Board noted the IT Procurement report.

POLB 15/34**PENSIONS**

- (a) Virginia Holmes, Chairman of the Pensions Committee, asked for a discussion on the Pensions paper presented to the Board for noting.

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ACTION:
Neil Hayward

(b) The CFO explained that the pension trustees were due to undertake their triennial evaluation of the scheme and that this was likely to show a significant worsening of the fund and a likely deficit position within the next two to three years. POL could not materially increase its contribution to enable the scheme to remain fully funded and therefore needed to work through the options. The Executive was asked to ensure there was sufficient capability and resource to manage the pension changes.

(c) The Board noted the Post Office Pensions update.

POLB 15/35 **MINUTES OF THE PREVIOUS MEETING AND MATTERS ARISING**

(a) The minutes of the Board meeting held on 28 January 2015 were approved for signature by the Chairman.

POLB 15/36 **COMMITTEE MEETING MINUTES FOR NOTING**

- (a) The Board noted the minutes of:
- the meeting of the Audit, Risk and Compliance Committee held on 12 January 2015; and
 - the meeting of the Remuneration Committee held on 25 February 2015.

POLB 15/37 **STATUS REPORT**

ACTION: CoSec

(a) The Status Report, showing matters outstanding from previous Board meetings, was noted and the Chairman asked that any late actions be followed up by the Executive.

POLB 15/38 **UPDATE FROM THE NOMINATIONS COMMITTEE**

(a) The Board agreed to the revised terms of reference for the Nominations Committee, as provided.

POLB 15/39 **UPDATE FROM THE REMUNERATION COMMITTEE**

(a) The Board agreed to the revised terms of reference for the Remuneration Committee, as provided.

POLB 15/40 **UPDATE FROM THE FINANCIAL SERVICES COMMITTEE**

- (a) The Board received an update from Virginia Holmes, Chairman of the Financial Services Committee.
- (b) Following Alisdair Cameron's appointment as Chief Financial Officer, the Board agreed that he should be appointed to the

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ACTION: CoSec

Financial Services Committee with immediate effect. The Board authorised the Company Secretary to make any necessary amendments to the Committee's terms of reference to reflect this appointment.

POLB 15/41**UPDATE FROM THE PENSIONS COMMITTEE****ACTION:
Neil Hayward**

- (a) The Board received an update from Virginia Holmes, Chairman of the Pensions Committee. The Committee had undertaken an effectiveness review and the main issue raised had been that the Committee was over reliant on the expertise of the Chairman. The Executive was asked to source training opportunities for the other Committee members. It was agreed that the outcome of the effectiveness review did not require the Committee to refresh its terms of reference.

- (b) Following Alisdair Cameron's appointment as Chief Financial Officer, the Board agreed that he should be appointed to the Pensions Committee with immediate effect. The Board authorised the Company Secretary to make any necessary amendments to the Committee's terms of reference to reflect this appointment.

ACTION: CoSec**POLB 15/42****ITEMS FOR NOTING**

- (a) The Board noted the Significant Litigation report.
- (b) The Board noted the Health and Safety report.
- (c) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1262 to 1286 inclusive in the seal register was hereby confirmed.
- (d) The Board noted the information regarding publication of POL's Report and Accounts for 2014/15, and asked the Executive to ensure that the Board was given enough time to contribute to the key messages. Richard Callard asked for the ShEx to be given sight of the Report and Accounts as early as possible.

**ACTION:
Mark Davies****POLB 15/43****ANY OTHER BUSINESS****ACTION: CoSec**

- (a) The Company Secretary circulated the proposed agenda for the Board away day in June.
- (b) The Board proposed that the POMS NEDs be invited to join the Board for lunch and the afternoon sessions of the away day.
- (c) It was agreed that the day would start with Mails and FS strategies and conclude with the Network and Channel session.
- (d) The NEDs were asked to let the Company Secretary have their

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ACTION: NEDs

thoughts on what would make the discussions at the away day effective from their perspective and how the Executive could ensure the NEDs were confident about the outputs and proposed strategy.

- (e) There being no further business, the meeting closed.

POLB 15/44

DATE OF THE NEXT MEETING

- (a) It was noted that the next Board meeting would be held on 21 May 2015.
- (b) It was further noted that prior to May there would be an additional Board meeting at 8.00am on 22 April 2015, to discuss POMS.

Alice Perkins