

Post Office Limited – Strictly Confidential

Alice
Some comments below.
Thanks.
Alice

POLB 14(5th)
POLB 14/64-14/83

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

Minutes of a Board meeting held on 21 May 2014
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director (minutes 14/64-68)
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive (minutes 14/64-71 and 14/76-82)
Chris Day	Chief Financial Officer (minutes 14/64-71 and 14/76-82)

In Attendance:

Alwen Lyons	Company Secretary
Nick Kennett	Director, Financial Services (minutes 14/64-65)
Paul Havenhand	Head of Travel and Insurance (minutes 14/64-65)
Chris Aujard	General Counsel (minutes 14/64-65 and 14/76)
Martin George	Chief Marketing and Commercial Officer (minute 14/66)
Kevin Gilliland	Network & Sales Director (minutes 14/66-69)
David Ryan	Business Transformation Director (minutes 14/67-69)
Lesley Sewell	Chief Information Officer (minutes 14/67-69 and 14/82)
Neil Hayward	Group People Director (minutes 14/67-69 and 14/72-75)
Belinda Crowe	Programme Director, Project Sparrow (minute 14/76)
Jim Knox	PA Consulting, Partner (minute 14/69)
John McAlister	PA Consulting, Partner (minute 14/69)
Mark Davies	Communications & Corporate Affairs Director (minutes 14/70)

POLB 14/64

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and welcomed Nick Kennett, Director, Financial Services, Chris Aujard, General Counsel, and Paul Havenhand, Head of Travel and Insurance.

POLB 14/65

PROJECT TITAN

- (a) The Board received an update on Project Titan, together with an assurance paper regarding the status of risk analysis in Project Titan from the General Counsel.
- (b) Nick Kennett reiterated the commercial case for the changes being proposed and the Board discussed the benefits and risks in the Project. It was noted that alternative operating models had been considered in the report commissioned from Miller, which had

Post Office Limited – Strictly Confidential

concluded by supporting the proposal. *The Board recognised its decision & pressed into the recommended model, subject to the governance arrangements being put in place.*

- (c) The General Counsel explained the proposed Post Office Management Services Limited (POMS) governance model and the reporting lines as set out in the Board paper. The Board supported the proposition that POMS be set up with a separate POMS Audit and Risk Committee, as although this added complexity to the structure it provide a greater level of focus and scrutiny.

- (d) The General Counsel highlighted the specific risks identified in the Board paper regarding: governance and controls; conflicts of interest; commercial risks; and reputational risks. He explained that Grant Thornton had reviewed both this paper and the paper prepared by the Business.

- (e) The General Counsel described the possible conflicts of interest which could occur between the two businesses and the importance of agreeing robust SLAs before POMS was operational. He explained that work was underway to draft the Articles of Association and that the escalation process for SLA disputes was under consideration. The Board recognised that creating the right SLAs would be critical and the CEO explained that the Business would scenario model possible disputes as part of the planning work. She also acknowledged that the Business had a skills gap it would need to fill to enable it to manage the POMS relationship effectively, although recognised the recent progress made in managing the First Rate (FRES) and Bank of Ireland relationships.

ACTION:
General Counsel

- (f) The Board agreed that the appointments to the POMS Board would be made by the Post Office Board. These would be recommended by the Post Office Nominations Committee, with remuneration recommended by the Post Office Remuneration Committee. The Company Secretary was asked to draft the necessary changes to the Terms of Reference.

ACTION:
Company
Secretary

- (g) The Board agreed that the POMS Board should be Chaired by a Non-Executive Director (NED) who should also sit as a NED on the Post Office Board; this appointment would therefore need consent from the Shareholder Executive. The Board discussed the possible need for an interim Chairman to enable the FCA application to progress. It was decided that the application would, if necessary, be made putting forward three proposed Executive Directors, namely, Chris Day, CFO, Chris Aujard, General Counsel, and Nick Kennett, Director Financial Services, and explaining to the FCA that the position of Chairman was in the process of being filled.

ACTION:
All/Neil Hayward

- (h) The Board were asked to provide the names of possible candidates for the position of POMS Chairman to Neil Hayward, Group People Director, who would manage the recruitment process for the Nominations Committee.

ACTION:
Chris Aujard/
Company
Secretary

- (i) The General Counsel and Neil Hayward were asked to provide a paper explaining the milestones to POMS approval, including, in particular, the effect on the Post Office Board Sub-Committees (with input from the Chairman of the Financial Services Board Sub-Committee) and the appointment and ShEx consent process for the

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POMS Chairman.

- (j) The Board noted the update on Project Titan and thanked the Business for the work to date.
- (k) The Board authorised the Business to proceed to submit the application to the FCA for POMS to be authorised to be a Managing General Agent (MGA).
- (l) The Board noted that the Business would submit a further paper in Q3 2014-2015 for ratification, prior to any market launch of the MGA services.
- (m) Nick Kennett, Chris Aujard and Paul Havenhand left the meeting.

ACTION:
Nick Kennett

POLB 14/66

MAILS DEEP DIVE

- (a) The Board welcomed Martin George, Chief Marketing and Commercial Officer and Kevin Gilliland, Network & Sales Director, to the meeting.
- (b) An update on the plans and activities required to deliver the Mails income target for 2014-2015 was received.
- (c) The Board discussed the major initiatives in place to deliver growth and acknowledged the work that the Business was doing. However, they were concerned that the results were not as yet coming through and that the competitors in the Mails market were becoming more of a threat.
- (d) Martin George re-emphasised the importance and challenge of the relationship with Royal Mail (RM) and its constraints when trying to respond quickly to the market. The CEO reported her meeting with Moya Greene, CEO RM at which the advantages of a joint strategy had been discussed. She explained that a joint meeting was planned for the autumn with the Royal Mail Chairman and CEO.

ACTION:
Martin George
/General Counsel

- (e) The Board requested a recap of the Mails Distribution Agreement (MDA) as part of the June Away Day papers, including the Material Adverse Change (MAC) clause and when this might be applied.
- (f) *Sales M* The Board asked if the focus on mails would have an adverse effect on other product areas where the returns were higher, but were reassured that the Business believed that this was a risk which could be managed.
- (g) The Board noted the plans to deliver the required growth in Mails income and achieve the target for the financial year of £376m, and acknowledged that the Executive team were aiming for a very ~~tough~~ *X* and stretching target.
- (h) Martin George left the meeting.

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POLB 14/67

BUSINESS TRANSFORMATION UPDATE

- (a) The Board welcomed Neil Hayward, Group People Director, David Ryan, Business Transformation Director, and Lesley Sewell, Chief Information Officer, to the meeting.
- (b) The CFO explained that the three areas of transformation were being presented together as they now formed part of the wider scope being considered for Business Transformation.
- (c) The Board received an update on the Business Transformation Programme. David Ryan explained that the Programme was entering into the design phase which consisted of three parts: diagnostics of the cost base; an exercise to determine the target operating model (TOM) fit for the business in 2018-20; and development of the transformation blueprint which will describe the plan and journey to deliver this operating model.
- (d) He explained that the Business had chosen McKinsey as the design partner from six possible candidates and that the contract would be agreed before the end of the week. It had been agreed as part of the contract that the Programme would drive costs out of the Business as quickly as possible, without compromising the long term benefits.
- (e) The Board were reassured that sensible assumptions would be taken in areas where the TOM was less clear, maintaining as much flexibility as possible in the design.
- (f) David Ryan explained that it would not be clear until further into the design phase whether the Business needed one or multiple delivery partners, although possible partners were already helping with the Programme.
- (g) The Board sought assurance that the Programme was supported by the best resource in the Business and David Ryan, backed by the CEO, promised that this was the case.
- (h) The Board noted the progress of the Business Transformation Programme and thanked David Ryan for his work to date.

POLB 14/68

IT TRANSFORMATION PROGRAMME

- (a) The Board considered an update on the status of the IT Transformation Programme.
- (b) Lesley Sewell explained that the Business and Royal Mail were working well together on IT separation. She stressed that this was a complicated process, and that the risks were being closely monitored. Both businesses were moving to new suppliers and once these suppliers were known the process would be clearer.
- (c) Alasdair Marnoch, Chairman of the ARC, reported that a paper on the lessons learned after the cancelled Data Centre procurement had been discussed at the ARC and that a number of changes had already been implemented.

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ACTION:
Neil Hayward

- (d) Lesley Sewell believed that the decision to withdraw the procurement had been correct and stressed that none of the bidders had needed to be compensated. The lessons learned review has highlighted a skills gap in the Business and Neil Hayward reported that he was reviewing the vacancies with Lesley Sewell, which may need to be discussed at the Remuneration Committee, if the appointments were constrained by the salary being offered. *He would keep a record of cases where suitable candidates were deterred by the remuneration offer.*
- (e) Lesley Sewell assured the Board that the IT Transformation Programme was fully aligned with the wider Business Transformation Programme and that any changes to the IT architecture would continue to be checked for flexibility to ensure they were consistent with the new operating model.

ACTION:
Lesley Sewell

- (f) She confirmed that each contract would return to the Board for sign off at the point when a preferred bidder had been identified.
- (g) The Board noted the progress of the IT Transformation Programme.
- (h) Tim Franklin left the meeting.

POLB 14/69

SUPPLY CHAIN REVIEW

- (a) The Board welcomed Jim Knox and John McAlister, PA Consulting, to the meeting.
- (b) The Board received the PA review of Supply Chain and the possible options available to the Business. It discussed the complexity of the Supply Chain Function and agreed that this was not a future core competency for the Business, although having reliable cash supply was a core requirement.
- (c) The Board discussed the proposed options and the likely effect of implementation on the industrial relations environment. It was recognised that these proposals would be unpopular with the unions and employees and Kevin Gilliland reported that a similar proposal had been suggested and withdrawn in the past.
- (d) The Board considered the political environment, the reaction to the options discussed and the timing of any decision.
- (e) The CFO acknowledged that, ~~notwithstanding the challenge in the Supply Chain Business,~~ there was a critical path to short and medium term value maximisation. Irrespective of any decision to manage or outsource, it would be necessary to deliver a separate and accurate P&L account and balance sheet for the Supply Chain Business. This would lead to a greater understanding of the profitability of individual external contracts and internal efficiencies.
- (f) The Business recognised the need to review the management structure and capability in this area. The CEO reported that a potential individual had been identified to lead the Supply Chain Business; this person was currently being assessed. In parallel an external search had also identified a candidate who will be put through the Hay

ACTION:
CFO

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What was agreed re taking the PR report folder? I can't remember I'm afraid.

assessment.

- (g) The Board noted the update.
- (h) Neil Hayward, Kevin Gilliland, David Ryan, Lesley Sewell, Jim Knox and John McAlister left the meeting.

POLB 14/70

ANNUAL REPORT AND ACCOUNTS

- (a) Mark Davies, Communications and Corporate Affairs Director, joined the meeting.
- (b) The Board received the Annual Report and Financial Statements for the 2013-2014 financial year and ancillary documents. Alasdair Marnoch, Chairman of the ARC, recommended the Financial Statements to the Board. He reported that there were no substantial issues in the External auditors report; that the Business had received a completely clean bill of health from Ernst & Young; and that the Financial Statements were robust.
- (c) The Board asked for a final review of the first three sections of the report to ensure that the style was consistent with no duplication. It was suggested that the Financial Services page of the Business Review be used as an exemplar for the other sections and that the Mails page needed a considerable rewrite. The Chairman of the ARC asked the Business to ensure that the clarity and objectivity of the Budget Briefing Book was carried forward into the front half of the report as this would help give a clearer message of the Business' performance.
- (d) The Board agreed that this year's report would encapsulate the 'spirit' of fair, balanced and understandable without making a formal statement, but that the Business would work towards achieving this standard next year.
- (e) The Board were asked to provide any individual feedback to the CFO.
- (f) The Board discussed the inclusion of Sparrow in the report and agreed that it should be excluded. However the Business agreed that it would be appropriate to include a paragraph in the CEO overview to explain the size of the enterprise risk and the major transformation programmes being undertaken, referring back to the risks already highlighted in the CFO report.
- (g) With due regard to their individual duties and liabilities, the Board:

ACTION:
All/CFO/MD

ACTION:
Mark Davies

- approved the approach to Going Concern and agreed the Going Concern status for Post Office Limited at the full year;
- agreed that it was appropriate for the Directors of Post Office Limited to make the undertakings and statements in the financial statements; X
- confirmed that, as individual directors, so far as they were

Post Office Limited – Strictly Confidential

aware, there was no relevant audit information of which the auditor was unaware and that each director had taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor was aware of that information;

- approved the financial statements;
- delegated authority for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to comprise any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch;
- authorised Alwen Lyons to sign the Directors' Report and Chris Day and Paula Vennells (or, in either's absence, Alice Perkins) to sign the balance sheet, each acting on behalf of the Board; and
- approved the Letter of Representation to the auditor and authorised Paula Vennells or Chris Day to sign and issue it on behalf of the Board.

POLB 14/71

SEPARATION FACILITIES MANAGEMENT CONTRACT

ACTION:
Chris Day

- (a) The Board considered the proposal to provide delegated authority to the CEO and CFO to approve and sign the contracts for the Facilities Management contracts, as well as the security and alarm (Grapevine) services.
- (b) The Board approved the delegation of authority to the CEO and CFO as outlined in the paper, and asked for an update note to the Board when the contracts were signed.
- (c) The CEO and CFO left the meeting.

POLB 14/72

POST OFFICE SHORT TERM INCENTIVE PLAN (STIP) OUTTURN AND PAYMENTS FOR 2013-2014

- (a) Neil Hayward, Group People Director, joined the meeting.
- (b) Neil McCausland, Chairman of the Remuneration Committee, presented the Board with the proposed STIP payments for the CEO and CFO. It was noted that the Remuneration Committee had met, reviewed and endorsed these recommendations.
- (c) The Board approved the STIP payments for the CEO and CFO.

POLB 14/73

POST OFFICE LONG TERM INCENTIVE PLAN (LTIP) OUTTURN AND PAYMENTS FOR 2013-2014

- (a) Neil McCausland, Chairman of the Remuneration Committee, presented the Board with the proposed LTIP payments for the CEO and CFO. It was noted that the Remuneration Committee had met,

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reviewed and endorsed these recommendations.

- (b) The Board approved the LTIP payments for the CEO and CFO.

POLB 14/74

**POST OFFICE SHORT TERM INCENTIVE PLAN (STIP)
MEASURES 2014-2015**

- (a) Neil Hayward presented the Board with the recommended bonus worthy measures in the Post Office scorecard for 2014-2015 which forms part of the STIP for Executive Directors. He explained the greater emphasis on engagement and the debate at the Remuneration Committee about the targets.

*Given the share price
already built into
this year's budget,*

- (b) Neil McCausland explained that the targets had ^{been} tightened significantly in 2013-2014 and ~~that this year~~ the focus was on tightening targets slightly further and taking away some thresholds, but ~~that~~ the Remuneration Committee did not want to tighten targets any further, ~~as they had no flexibility to move the basic pay for either the CEO or CFO.~~ X

- (c) The Board discussed the proposed personal objectives.
- (d) Richard Callard explained the ShEx process for approval and promised to deal with the request for consent as quickly as possible.
- (e) The Board approved the STIP Measures for 2014-15 and recommended that they be presented to the Shareholder for consent.

POLB 14/75

**POST OFFICE LIMITED LONG TERM INCENTIVE PLAN (LTIP)
AWARD DATE APRIL 2014-2017**

- (a) The Board received a paper on the recommended performance measures of Access Criteria, and Earnings Before Interest and Tax, Depreciation, Amortisation and Subsidy (EBITDAS) for the LTIP award 2014-2017. It was noted that the performance conditions would be tested during the financial year 2016-2017.
- (b) The Board approved the performance conditions of Access Criteria and EBITDAS for the 2014-2017 LTIP award and recommended that they be presented to the Shareholder for consent.
- (c) Neil Hayward left the meeting. Paula Vennells and Chris Day re-joined the meeting.

POLB 14/76

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the Chief Executive's report and discussed the following specific items:

- (b) SEPARATION

The CEO reported a meeting with Moya Greene, CEO of Royal Mail plc, who was concerned about the separation of the two businesses. To ensure any potential problems are understood she has asked David Ryan to have a look at separation in the context of Business Transformation. Paula Vennells explained that the Business may need

L. Hayward

Post Office Limited – Strictly Confidential

a COO role whilst separation was finalised and was considering possible options for that role.

(c) NFSP CONFERENCE

The CEO told the Board that she had received good feedback from the NFSP conference and that the relationship was in a different place to last year. Richard Callard concurred that the conference had gone well but explained that there had been challenge to the Minister regarding Government Services work, especially DVLA and POCA.

(d) CURRENT ACCOUNT

The Bank Of Ireland had agreed to extend the current account to an additional 100 branches, but the Business was asking for an additional 500.

(e) BBC DOCUMENTARY

The Business had agreed the filming of a BBC documentary to be aired in the spring. The CEO recognised that any such work had an element of risk but the Business had been reassured by the editorial constraints negotiated by Mark Davies. The Board asked the CEO to ascertain if the broadcast could be timed for after the election. The CEO offered to circulate a brief and film trailer to the Board

ACTION:
Mark Davies

(f) SPARROW

Chris Aujard, General Counsel, and Belinda Crowe, Programme Director Project Sparrow, joined the meeting.

ACTION:
General Counsel

~~It was reported that~~ The draft executive summary of the Horizon Assurance Review, prepared by Deloitte, had been circulated to the Board. The General Counsel advised that ~~it was~~ the full Review should be available to the Business on Friday 23rd May. He would circulate it to the full Board as soon as possible, once he was satisfied with its drafting and the clarity of expression. It was agreed that he would escalate within Deloitte if he had concerns about the quality of the product. The Chairman stressed the importance of this Review and the need for it to give the Board assurance that there were (if that be the case) no issues with the system. She also stressed the need for the Review to be written clearly so that it could be used to give assurance to a wider audience. The Review would be considered at the next Board Sparrow Sub Committee (BSSC). X

ACTION:
Board Sparrow SC

The CEO reported that she and the General Counsel had met Sir Anthony Hooper to understand his appetite for changing the Scheme. Sir Anthony Hooper stressed that the Post Office had agreed to the mediation scheme and believed they now needed to let it run over the next 12-18 months. With this in mind, the Chairman asked the BSSC to decide whether there was an option to change the scheme, before the first case was mediated, which could be as early as the next 4-8 weeks.

The General Counsel explained that ten cases, where the claimant was an existing sub postmaster, had already been resolved outside

Post Office Limited – Strictly Confidential

the scheme at very low cost to the Business. The team were continuing to identify and attempting to resolve cases under the business as usual processes – this included making settlement payments, where doing so was unlikely to set precedents or create problems with either the Working Group or the Network. It was possible that the first case going through the Scheme could also be settled prior to mediation.

The Board asked for a paper to the BSSC explaining the caseload, to include:

ACTION:
Belinda Crowe

- the original number of cases;
- those already resolved outside the Scheme;
- an assessment based on information available (as only 22 have been fully investigated) as to how many cases have so far been identified which could potentially be settled under business as usual without going to mediation;
- identifying the number of criminal cases which Post Office is unlikely to agree to mediate; and
- highlighting how many applications in the Scheme cite issues which relate specifically to the Horizon system.

The CFO explained the cost to the Business of the Sparrow was running at circa £700k a month, excluding payments to claimants. This expenditure was in line with the budget but still a challenge for the Business.

The Chairman asked that the next BSSC to consider:

ACTION:
General Counsel/
Belinda Crowe
Mark Davies

- the options available for the Scheme;
- how cases could be removed from the Scheme into business as usual, based on a narrow definition of Horizon, and how this would be explained to the sub postmasters and other stakeholders;
- the likely response from Sir Anthony Hooper, JFSA and Second Sight to any change; and
- PR scenario planning for all the options being considered.

POLB 14/77

FINANCIAL PERFORMANCE UPDATE

- (a) The Board received a financial performance update for April 2014.

POLB 14/78

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 30 April 2014 were approved for signature by the Chairman.

POLB 14/79

COMMITTEE MEETING MINUTES FOR NOTING

Post Office Limited – Strictly Confidential

- (a) The Board noted the minutes of the Project Sparrow Sub-Committee meeting held on 9 April 2014.

POLB 14/80

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, including an update on Telephony, was noted.

POLB 14/81

ITEMS FOR NOTING

- (a) The Board noted the Project Maypole update. The CFO reported that the DWP had asked for a 10 per cent price reduction in the Maypole contract. The Business has responded by explaining that it cannot take a 10 per cent hit on the income and that what has been proposed is the final offer. The CFO warned the Board that ~~the DWP may have alternative options and~~ the Business may not be able to negotiate an economic deal. X
- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.
- (d) The Board noted the update on Cyber Security and Information Assurance.
- (e) 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 1160 to 1167 inclusive in the seal register was hereby confirmed.

POLB 14/82

ANY OTHER BUSINESS

- (a) The Board considered a proposal to separate IT Network Services from Royal Mail.
- (b) The Board agreed that the Business should proceed to award a direct contract between Post Office and British Telecommunications as outlined in the paper, and authorised the Business to enter into a Transitional Services Agreement with Royal Mail covering joint activities and services necessary to support the commercial separation.

POLB 14/83

DATES OF NEXT MEETINGS

- (a) It was noted that the next Board meeting would be held on 16 July 2014, and that the Board Strategy Awaydays would be held on 10-11 June 2014