

Post Office Limited – Strictly Confidential

POLB 14(4th)
POLB 14/48-14/63

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

Minutes of a Board meeting held on 30 April 2014
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director (minutes 14/49-14/51)
Alasdair Marnoch	Non-Executive Director
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Nick Kennett	Director, Financial Services (minutes 14/48-49, 14/51 and 14/53)
Chris Aujard	General Counsel (minutes 14/48-49 and 14/55)
Paul Havenhand	Head of Travel and Insurance (minute 14/48-49)
Mark Davies	Communications and Corporate Affairs Director (minutes 14/50 and 14/52)
Martin George	Chief Marketing and Commercial Officer (minutes 14/53-54)
Kevin Gilliland	Network & Sales Director (minutes 14/53-54)
Lesley Sewell	Chief Information Officer (minute 14/55)
Gareth James	Partner, Deloitte LLP (minute 14/55)

POLB 14/48

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 14/49

PROJECT TITAN

- (a) The Board received an update on Project Titan. Virginia Holmes, Chairman of the Board FS Sub Committee, explained that Titan had been discussed at the recent Sub Committee and that there was support for the project subject to the outcome of additional work on governance and risk.
- (b) The Board acknowledged the importance of Titan in delivering the FS strategy. However, it recognised the risks to the Post Office brand and reputation of establishing the specialist subsidiary Managing General Agent (MGA). The Business was asked to provide more detail of the

ACTION: Nick Kennett

Post Office Limited – Strictly Confidential

financial impacts of the proposed model.

ACTION: Chris Aujard

ACTION: Company Secretary

- (d) Virginia Holmes suggested that the Miller Report used by the FS Sub Committee be made available to the full Board.
- (e) The Business was asked to provide a paper for the next Board covering:
 - the governance structure of the MGA. How the relationship, controls and oversights between the MGA Board and the Post Office Board would operate and link through to the Shareholder Executive;
 - the implications for the Business of operating the MGA including the change in the risk profile;
 - an analysis of the financial impacts of the new operating model, including improved margins and higher costs and how these relate to the additional risk, bearing in mind all the other changes that the Business was committed to implementing; and
 - an analysis of the Business' current regulatory obligations compared to a position of becoming directly regulated.

**ACTION: Nick Kennett/
Chris Aujard/
Chris Day**

ACTION: Chris Aujard

- (g) Without prejudice to the discussions at the next Board meeting, the Board authorised the Business to:
 - (i) Utilise the Post Office Management Services Limited ("POMS") to be the Post Office Managing General Agent; and
 - (ii) Discuss with BIS the possible use of POMS and understand the governance for appointing Directors which would be discussed at the next Board meeting.
- (h) Nick Kennett, Chris Aujard and Paul Havenhand left the meeting.

POLB 14/50

MILESTONES TO MUTUALISATION

- (a) Mark Davies, Communications and Corporate Affairs Director, joined the meeting.
- (b) The Board discussed the Milestones to Mutualisation document, which set out the conditions necessary before the mutualisation of Post Office Limited could become a reality.
- (c) Richard Callard explained the Minister's desire to publish this document, by the end of the week, alongside the announcements of the Community Fund and the Post Office Public Purpose.

Post Office Limited – Strictly Confidential

ACTION:
Richard Callard

- (d) Mark Davies pointed out that the Business had always planned to announce the Milestones to Mutualisation in the first quarter of the financial year 2014/15, but he had some reservations of doing so at present because of the possible connection with the mutual model at the Co-operative Group and the current publicity about them.
- (e) The Board discussed the document and agreed some amendments.
- (f) The Board agreed that the document could be published alongside the Post Office Public Purpose and Community Fund announcement but asked Richard Callard to feed back to BIS the Board's view that the emphasis in any statement be on the Community Funds and Public Purpose Statement, as these were the current issues.
- (g) Mark Davies left the meeting.

POLB 14/51

VARIOUS FINANCIAL SERVICES ISSUES

ACTION: CFO

- (a) Nick Kennett re-joined the meeting.
- (b) The Board discussed the areas for debate with the guests from the Bank of Ireland joining the meeting. The Chairman recognised the commitment from the Bank and the strength of the relationship. It was agreed to test the alignment of the two Business' plans, the support for the growth strategy and the appetite for investment products.
- (c) Virginia Holmes left the meeting.
- (d) The Board noted the Analysis of the Post Office relationship with the Co-operative Group, which had been circulated as a noting paper.
- (e) The Board asked if there was any more the Business could do to protect itself from the current exposure to the Co-operative Group. The CFO explained that he had commissioned a piece of work from Thomson Reuters to evaluate the current position and propose an appropriate approach to give the Business financial protection. The Board asked the CFO to share the outcome of the report and the actions he decides to take with Alasdair Marnoch, Chairman of the Audit Committee and the General Counsel.
- (f) The Board noted the update on various risk matters, including Bank of Ireland (UK) plc capital & liquidity and the progress on the launch of a Financial Services Sub-Brand. The Board discussed the Sub Brand options and supported the proposal of Post Office Money.
- (g) Nick Kennett left the meeting.

POLB 14/52

PUBLICATION OF ANNUAL REPORT AND FINANCIAL STATEMENTS

- (a) Mark Davies re-joined the meeting.
- (b) The Board considered the plans for publication of the Post Office's Annual Report and Financial Statements for the financial year 2013-2014. A detailed review would be carried out at the May ARC.

Post Office Limited – Strictly Confidential

**ACTION: Mark
Davies/Chairman/
CEO**

- (c) The Board discussed the themes to be included in the Chairman's foreword and CEO's review and the desire to ensure that the whole report is fair, balanced and understandable, in line with best practice in corporate governance. Mark Davies would draft and agree these before the ARC meeting.

ACTION: CFO

- (d) The CFO agreed to circulate a more detailed timetable to the Board.
- (e) Mark Davies left the meeting.

POLB 14/53

COMMERCIAL UPDATE

- (a) The Board welcomed Martin George, Chief Marketing and Commercial Officer and Kevin Gilliland, Network & Sales Director. Nick Kennett also re-joined the meeting.
- (b) The Board congratulated Kevin Gilliland on the resolution of the CWU pay dispute and recognised his personal commitment and that of his team in delivering the agreement.
- (c) Martin George updated the Board on the trading outlook and explained the new governance now in place in the Business to drive the commercial agenda. He reported changes in his team and promised a greater focus on mails and a more robust engagement with Royal Mail Group (RMG).
- (d) The Board challenged the number and complexity of the products which the Business sold. Whilst Kevin Gilliland agreed that simpler, more automated products which were to the relevant to customer would help his sales team, he did not advocate reducing products per say.

ACTION: CFO

- (e) The Board asked the CFO to provide the product profitability analysis for the next meeting.

**ACTION:
Martin George**

- (f) Martin George emphasised the importance of mails to delivering this year's income targets and suggested the he lead a deep dive into mails at the May Board. This would include the relationship with RMG, our response to changes in the market and how we can respond more quickly.
- (g) Martin George was confident in delivering the Government income in 2014/15. However, the current POCA negotiations could make future years more difficult. The CFO stressed that any POCA contract would need to have a long term positive margin and that the Business would not agree a contract which was uneconomic. The CEO acknowledged that the Department for Work and Pensions were in a difficult position and reported that she had a meeting planned with the Pensions Minister.

**ACTION:
Martin George**

- (h) Martin George was also confident in delivering the telephony income. The Board asked for clarity on the reasons for the increase in the cost of sale versus the budget in the new telephony contract and the reason why the Business has not been able to pass this on to the

Post Office Limited – Strictly Confidential

supplier.

- (i) Nick Kennett reported a strong final quarter in 2013/14 for Financial Services which was generating a healthy pipeline for products in 2014/15. However the Life Assurance campaign was still being analysed as this was an area which may need more work. He stressed the reliance on delivering project such as Titan to support this year's income.
- (j) Nick Kennett left the meeting.

POLB 14/54

NETWORK AND SALES

- (a) The Board received an update on the progress of Network Transformation, discussions with the NFSP and Crown Transformation, together with an update on Project Ivy.

- (b) **NETWORK TRANSFORMATION**

The Board discussed the costs of onsite and offsite conversions and the impact on sales. Kevin Gilliland explained that because of the change of premises, offsite conversions were understandably taking longer to recover lost sales as a result of the change than onsite conversions. The Business was trialling different initiatives to support the new branches and he was very hopeful that this would improve the sales. However, even with the initial loss of sales these branches increased the profitability for the Post Office because of the savings in fixed costs. The big opportunity for these branches was their availability outside core Post Office hours and the Business needed to promote that more effectively, as well as provide the right products such as collections and returns.

ACTION: Kevin Gilliland

- (c) The Board asked for a further update on the economics of transformed branches (onsite versus offsite) as part of the quarterly Network update.
- (d) Kevin Gilliland explained that, despite the success of hitting both the number of contracts signed and branches open targets for 2013/14, there was still considerable risk in this year's target as the majority of both contract signatures and openings would be Locals, particularly onsite independent Locals, where this approach was largely untested and could potentially take longer to deliver. He reported that he was also working with the NFSP on a trial of 'guided leavers' using a representative sample of 50 subpostmasters to show how we will manage compulsory exits.
- (e) **CROWNS**
Kevin Gilliland explained that the Business was now very clear about the run rate required at March 2015 to deliver the target of a breakeven Crown network. He stressed that the main risk to delivery was the income line in the P&L, which required a 7% increase year on year.
- (f) The Board recognised the ambition in the plans and asked the Business to work on a contingency to cover the risk of not achieving the income target. The CFO explained that work was already

ACTION: CFO

Post Office Limited – Strictly Confidential

underway and a plan would be in place by the end of the first quarter. The Board asked for sight of the work to date at the May meeting

- (g) Chris Day reported that this methodology for calculating the exit run rate for Crowns and therefore the breakeven point had been agreed with BIS.
- (h) PROJECT IVY
The Board noted the updates and the next steps for Project Ivy.
- (i) Martin George and Kevin Gilliland left the meeting.

POLB 14/55

HORIZON – DELOITTE REPORT

- (a) The Board welcomed Lesley Sewell, Chief Information Officer, and Gareth James, Partner, Deloitte, to the meeting. Chris Aujard also re-joined the meeting.
- (b) The Chairman thanked Gareth James for his draft report and explained that there were a number of people who were sceptical about Horizon. The Board were concerned to know the truth about the reliability of the system. Deloitte's views would need to be expressed in such a way that they would persuade reasonable lay people.
- (c) Lesley Sewell explained that the first piece of work Deloitte had been asked to undertake was to give assurance that the control framework, including the security and processes for changes in the system, were robust from an IT perspective.
- (d) Gareth James reported that all the work to date showed that the system had strong areas of control and that its testing and implementation were in line with best practice. Work was still needed to assure the controls and access at the Finance Service Centre.
- (e) Chris Aujard explained that several of the subpostmasters who were challenging Horizon had made allegations about 'phantom' transactions which were non-traceable. Assurance from Deloitte about the integrity of the system records logs would be very valuable.
- (f) The Board asked what assurance could be given pre 2010 when the different Horizon system was in use. It was agreed that Gareth James would produce and cost a proposal for additional work to enable assurance for the wider system, including pre 2010.
- (g) Lesley Sewell, Gareth James and Chris Aujard left the meeting.

ACTION:
Lesley Sewell/
Chris Aujard

POLB 14/56

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the Chief Executive's report.
- (b) The CEO reported that an employee engagement score of 57% had been achieved for the full year, which meant that the Business had achieved its stretch target.

Post Office Limited – Strictly Confidential

POLB 14/57

FINANCIAL PERFORMANCE UPDATE

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

POLB 14/58

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 26 March 2014 were approved for signature by the Chairman.
- (b) There were no matters arising

POLB 14/59

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
- the Audit, Risk and Compliance Committee meeting held on 6 March 2014;
 - the Nominations Committee meeting held on 11 February 2014;
 - the Pensions Committee meeting held on 5 March 2014; and
 - the Remuneration Committee meeting held on 11 March 2014.

POLB 14/60

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, including an update on the Wave programme, was noted.
- (b) It was noted that the Sparrow Lessons Learned review would be discussed in more detail at the May ARC.

POLB 14/61

ITEMS FOR NOTING

ACTION: CFO

- (a) The Board noted the Separation update.
- (b) The Board noted the Head Office relocation update. The Board asked the Business to ensure it had negotiated the best rent available including asking the landlord for rent free periods to vacant the old building or for taking on the new lease. It was also suggested that the Business should check the broadband capability of the new building.
- (c) The Board noted the Significant Litigation report.
- (d) The Board noted the Health & Safety report.
- (e) The Board noted the update on Cyber Security and Information Assurance.
- (f) 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 1141 to 1159 inclusive in the seal register was hereby confirmed.

Post Office Limited – Strictly Confidential

POLB 14/62

ANY OTHER BUSINESS

- (a) There being no other business the meeting was closed

POLB 14/63

DATE OF NEXT MEETING

- (a) It was noted that the next Board meeting would be held on 21 May 2014.

Alice Perkins

Post Office Limited – Strictly Confidential

POST OFFICE LIMITED 30 APRIL 2014 BOARD ACTION LOG

REFERENCE	ACTION	BY WHOM
	Strategy	
April 2014 POLB 14/49(b)	Provide more detail of the financial impacts of the proposed model for Project Titan.	Nick Kennett
April 2014 POLB 14/49(c)	Explain the extent to which the MGA would in reality be free from restrictions imposed on government entities, including procurement law.	Chris Aujard
April 2014 POLB 14/49(d)	Miller report to be made available to the full Board	Company Secretary
April 2014 POLB 14/49(e)	Provide a paper for the next Board meeting covering: <ul style="list-style-type: none"> the governance structure of the MGA. How the relationship, controls and oversights between the MGA Board and the Post Office Board would operate and link through to the Shareholder Executive; the implications for the Business of operating the MGA including the change in the risk profile; an analysis of the financial impacts of the new operating model, including improved margins and higher costs and how these relate to the additional risk, bearing in mind all the other changes that the Business was committed to implementing; and an analysis of the Business' current regulatory obligations compared to a position of becoming directly regulated. 	Nick Kennett/Chris Aujard/Chris Day
April 2014 POLB 14/49(f)	Provide independent advice on the efficacy of the governance proposals, and to invite the advisors to the next Board.	Chris Aujard
April 2014 POLB 14/53(e)	Provide a product profitability analysis for the next meeting.	CFO
April 2014 POLB 14/53(f)	Lead a deep dive into mails at the May Board	Martin George
April 2014 POLB 14/53(h)	Provide clarity on the reasons for the increase in the cost of sale versus the budget in the new telephony contract and the reason why the Business has not been able to pass this on to the	Martin George

Post Office Limited – Strictly Confidential

	supplier.	
	Finance	
April 2014 POLB 14/52(c)	Draft and agree the themes to be included in the Chairman's foreword and CEO's review and the desire to ensure that the whole report is fair, balanced and understandable, in line with best practice in corporate governance before the ARC meeting.	Mark Davies/Chairman/CEO
April 2014 POLB 14/52(d)	Circulate a more detailed timetable to the Board.	CFO
	Network	
April 2014 POLB 14/54(c)	Provide a further update on the economics of transformed branches (onsite versus offsite) as part of the quarterly Network update.	Kevin Gilliland
April 2014 POLB 14/54(f)	Work to date on a contingency to cover the risk of not achieving the income target for the Crown P&L to go to the May Board meeting.	CFO
	Project Sparrow	
April 2014 POLB 14/55(f)	Gareth James to produce and cost a proposal for additional work to enable assurance for the wider system, including pre 2010.	Lesley Sewell/Chris Aujard
	Miscellaneous	
April 2014 POLB 14/50(f)	Feed back to BIS the Board's view that the emphasis in any statement be on the Community Funds and Public Purpose Statement, as these were the current issues.	Richard Callard
April 2014 POLB 14/51(e)	CFO to share the outcome of the Thomson Reuters report (on the current position and a proposed approach to the Business' relationship with the Co-operative Group) and the actions he decides to take with Alasdair Marnoch, Chairman of the Audit Committee and the General Counsel.	CFO
April 2014	The Business to ensure it had negotiated the best rent available for the head office relocation,	CFO

Post Office Limited – Strictly Confidential

POLB 14/61(b)	including asking the landlord for rent free periods to vacant the old building or for taking on the new lease and the Business should check the broadband capability of the new building.	
---------------	---	--