

POST OFFICE LIMITED SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

Introduction

This document ("Framework Document") has been drawn up by the Department for Business, Energy and Industrial Strategy (BEIS, the "Shareholder") and UK Government Investments Ltd (UKGI, the "Shareholder's Representative") in collaboration with Post Office Ltd ("POL"). It does not convey any legal powers or responsibilities and is not legally binding on the parties (other than in respect of the confidentiality obligations set out in 12 below). Rather, it describes:

- (i) Certain parameters within which POL is expected to operate;
- (ii) Certain obligations with which POL is expected to comply; and
- (iii) Certain aspects of the relationship between the Shareholder, the Shareholder's Representative and POL and how it is expected that the Shareholder, the Shareholder's Representative and POL will interact with each other,

as further set out in the following key governance documents (as applicable): (i) the Articles of Association of POL (the "Articles"); (ii) the "Entrustment Letter" of 16 April 2018; and (iii) the "Funding Agreement" entered into between the Shareholder and POL on 16 April 2018 (as subsequently amended, varied or replaced from time to time). Any amendment, update or replacement of any provision of this Framework Document shall be agreed by the parties in writing and must be consistent with the above documents (as may be amended, updated or replaced). It is expected that this Framework Document will be reviewed on a three-year basis.

References to (including extracts and summaries of) a statute or statutory provision include and shall be read as a reference to that statute or provision as from time to time modified, re-enacted or consolidated whether before or after the date of this Framework Document, and any subordinate legislation made from time to time under that statute or statutory provision which is in force at the date of this Framework Document.

This Framework Document is signed and dated by the Shareholder, the Shareholder's Representative and POL, and will be published on the GOV.UK website.

Ownership of Post Office Ltd

1.1 Ownership and legal framework: the Postal Services Act 2011 provided for a "Post Office company" to continue to be owned by the Crown or a mutual ownership structure after the privatisation of Royal Mail. Under the Act (Part 1, Section 4), the Crown may only dispose of its interest in a "Post Office company" through the issue or transfer of shares or share rights in a Post Office company to a relevant mutual by order of the Secretary of State for Business, Innovation and Skills (now BEIS). The Post Office formally separated from Royal Mail Group on 1 April 2012 and became a private company limited by shares. On separation, the Secretary of State was granted a Special Share in POL and the rights and privileges thus conveyed are set out in the Articles.

1.2 Government classification: POL is classified as a Public Non-Financial Corporation under the Office for National Statistics national account system and BEIS is its sponsoring department. As a Public Corporation, the POL Board retains responsibility for the operations of the Post Office. Neither the Shareholder nor the Shareholder's Representative have any involvement in the day-to-day operations of POL or in the management of its network of post offices and staff. Whilst the POL Board retains operational control, it is accountable to the Shareholder for the performance of POL and is required to seek consent for certain matters, as set out in the Articles.

Governance and accountability

2 Overall aims

2.1 POL's public ownership is founded on its social purpose, as set out in Appendix 3, and as amended by the Shareholder (with the consent of POL) from time to time.

2.2 To deliver its social purpose, the Secretary of State has stipulated that the principal objectives of POL are the following:

- (i) to maintain, during the term of the Funding Agreement, a network of post offices beyond its optimal commercial size as detailed in the Entrustment Letter. A specific minimum branch threshold of 11,500 is specified by the Secretary of State in the Funding Agreement;
- (ii) in so doing, meet the minimum access requirements specified for this network of post offices as detailed in the Entrustment Letter; and
- (iii) provide this network of post offices to make available the services of general economic interest (SGEI) detailed in Annex A of the Entrustment Letter.

2.3 The Shareholder may also issue a periodic Chair Letter (the "Chair Letter"), which, while not legally binding, will typically:

- (i) provide clarity over the Shareholder's shorter-term aspirations for POL; and
- (ii) ask POL to ensure strategic alignment with wider BEIS or Government policy objectives, where POL's business is relevant to such policy, such as financial inclusion or the rural economy.

2.4 In delivering its objectives, the Shareholder expects POL to operate under sound commercial and financial principles, and in accordance with all applicable laws, seeking to deploy its capital, brand and products as a responsible commercial operator and manage risk to deliver positive financial returns, notwithstanding the network requirements in paragraph 2.2 above.

3 The Special Share

3.1 Under the Articles, the Secretary of State was granted a "Special Share" in POL, conveying certain rights and privileges to the Shareholder or its representatives.

3.2 The Shareholder is entitled to attend and speak at any general meeting or any meeting of any other class of shareholders of POL, but the Special Share does not carry voting rights or any other rights at any such meeting. The Special Share may be redeemed at any time by the Shareholder, but POL cannot redeem it without prior consent of the Shareholder.

3.3 The prior written consent of the Shareholder is required for certain decisions (set out in full under Article 8.1 of the Articles), including but not limited to:

- (i) varying POL's Articles (8.1 (H));
- (ii) voluntary winding up of the company or member of the group (8.1 (I));
- (iii) issuing or allotment of shares or granting of share rights in the company (11.1 (K));
- (iv) appointment or removal from office of any director or the Chief Executive or Chair of the company (8.1 (A));
- (v) the adoption or amendment of the Group Strategic Plan (8.1 (U));

- (vi) any unplanned substantial alteration in the nature of the business (8.1 (V));
- (vii) sale of material assets in the absence of which POL would not be able to continue to perform its business as provided for in the Group Strategic Plan (8.1 (W));
- (viii) the entry into or implementation of a transaction involving the commitment or liability or the payment of a sum in excess of £50,000,000 (8.1 (X)). The Shareholder reserves the right to review the delegated authority limits, through an amendment to the Articles;
- (ix) the entry into any transaction which is not on commercial terms and is not considered by the directors to be in the interests of the company (8.1 (Y));
- (x) alterations to trademark rights ([8.1 (Z)]);
- (xi) any material variation to the remuneration or terms and conditions of employment of any of the directors of the Company appointed or approved by the Shareholder (8.1 (E));
- (xii) incurring of any borrowing exceeding pre-set limits and subject to other restrictions as agreed with HM Treasury ([8.1 (AA)]); and

4 The Group Strategic Plan and Group Business Plan

4.1 POL's Board must develop (i) a strategic plan for the Group covering a period of at least three years (the "Group Strategic Plan"); and (ii) a business plan for the Group covering a period of twelve months (the "Group Business Plan") (together, the "Group Plans"). The issues and priorities to be addressed in the Group Plans shall be agreed between the POL Board and the Shareholder and shall comply with the following objectives:

- (i) the Group Plans shall clearly set out the Group's objectives and contain such information as can reasonably be expected to enable the Shareholder to give consideration to the strategic and operational directions of the group's activities; and
- (ii) the Group Plans shall provide targets, expressed in terms of both cashflow and profits and sufficient other financial information in order to enable the POL Board to set the group's profit target and consider the framework of the group's borrowings, and for this to be reviewed and approved by the Shareholder.

Group Business Plan

4.2 POL's Board must on an annual basis develop a business plan for the Group covering a period of twelve months (the "Group Business Plan"). Each year, by 31 December, the Shareholder (acting reasonably) will agree with POL a timetable for POL to provide a draft and final version of the Group Business Plan for the next financial year. This timetable will, among other things, allow sufficient time for the Shareholder to review and to agree its final form prior to the start of the relevant financial year. Final Shareholder approval will need to be sought subsequent to approval by POL's Board.

4.3 The Shareholder and the POL Board shall agree the issues and priorities to be addressed in the Group Business Plan but it will include:

- (i) the steps that POL will take in respect of the current Group Strategic Plan (or any variation to it, agreed by the Parties where material)
- (ii) POL's annual budget, including financial forecasts and performance targets;
- (iii) a reconciliation of any differences between POL's annual budget and the projected income statement, statement of cash flows and balance sheet in the previous year's Business Plan and the current Strategic Plan;
- (iv) reporting on key performance indicators and performance against targets;
- (v) information on the network of Branches, including its planned size and confirmation of POL's intention to continue to comply with the network access criteria;
- (vi) information on the state of the relationship and any developments with the community of postmasters;
- (vii) the proposed quarterly drawings by POL of Government funding, as applicable;

- (viii) information on the investment activities that POL plans to undertake, the expected costs and benefits, and how the activities relate to the Group Strategic Plan;
- (ix) an update on POL's forecast financial performance for the current financial year; and
- (x) information on any other outcomes set out in POL's Group Strategic Plan that do not form part of (i) to (ix) above.

Group Strategic Plan

4.4 POL's Board must have in place at any time a strategic plan for the Group covering a period of at least three years (the "Group Strategic Plan"). At least twelve months prior to the end of the existing Group Strategic Plan, the Shareholder (acting reasonably) will agree with POL a timetable for POL to provide a draft and final version of the Group Strategic Plan. This timetable will allow sufficient time for the Shareholder to review and to agree its final form prior to its adoption. Final Shareholder approval will need to be sought subsequent to approval by POL's Board.

4.5 The Shareholder and the POL Board shall agree the issues and priorities to be addressed in the Group Strategic Plan. In particular the Group Strategic Plan shall:

- (i) describe the strategic objectives of the Group, the strategy for meeting those objectives and associated performance targets (financial and non-financial)
- (ii) analyse the commercial and regulatory environment in which the group operates, including the POL Board's view of the way in which the market is evolving and the development of competitors' activities;
- (iii) set out the group's strategic response to the commercial and regulatory environment, including:
 - a. its principal strategic options;
 - b. its proposals for meeting its social purpose;
 - c. its proposals for managing the nationwide network of post offices;
 - d. its strategic approach to remuneration of employees and postmasters;
 - e. the resources needed, including personnel, technology and funding;
 - f. its high level financial and performance projections, at both the corporate and line-of-business level, with sensitivity analyses of the major risks;
 - g. outline possibilities and plans for entering into partnerships and alliances;
 - h. clear performance indicators which will enable the group's performance, in achieving its strategic objectives, to be measured; and
 - i. any proposals for entering into relevant transactions or for making any substantial alterations in the nature of the business carried on by any member of the group.

Updating the Group Strategic Plan

4.6 On an annual basis, the Group Strategic Plan should be reviewed by the POL Board and updated if necessary. The Group Strategic Plan will also be updated following Government Spending Reviews and at other times agreed between POL and the Shareholder.

Variations from Group Plans

4.7 The Company shall inform and consult with the Shareholder in respect of any contemplated changes to the Group Plans that it considers are, or may become, necessary from time to time. Any proposed updates or amendments will be subject to discussion with, and approval by, the Shareholder.

Effect of Approval of Group Plans

4.8 The approval of any Group Plan shall be deemed to be an approval of any matter within that Group Plan which would have required approval in accordance with Article 8.1 (U) of the Articles of Association if such matter is specifically identified with reasonable detail in that Group Plan as being proposed for approval in accordance with that aforementioned Article.

5 Shareholder undertaking towards POL

5.1 Where consistent with the aims set out above (see 2 - *Overall Aims*), as well as with the Articles, Entrustment Letter and the Funding Agreement, and where POL as a public corporation cannot meet the aims or obligations stipulated therein without the Shareholder's support, the Shareholder undertakes to provide the necessary practical support and in particular to:

- (i) on request, provide clarification about the Shareholder's expectations in relation to these aims or on government policy objectives relevant to POL more generally;
- (ii) facilitate regular access to the Responsible Minister and the Principle Accounting Officer, as well as access to other parts of government when required; and
- (iii) in a timely manner review and comment on POL's draft strategic plans and consult with POL on its development.

5.2 The Shareholder also undertakes to provide the following additional support to POL:

- (i) on request, facilitate access to and clarify as needed relevant government-wide corporate governance guidance and instructions (see 8 and *Appendix 3 - Government-wide corporate guidance applicable to public corporations*); and
- (ii) take due care in handling commercially sensitive and legally privileged information (See paragraphs 10, 11 and 12 - *Shareholder's right to information, Reporting Performance and POL's Information*).

6 Key roles and accountabilities for POL's governance

Accounting officer responsibilities

Shareholder's Principal Accounting Officer ("PAO")

6.1 The Shareholder's PAO is the BEIS Permanent Secretary. The PAO is accountable to Parliament in respect of POL and for ensuring that arrangements are in place for effective shareholder oversight of POL. The PAO is responsible for advising the responsible minister on various aspects including but not limited to the following:

- (i) an appropriate framework of objectives and targets for POL in the light of BEIS' wider strategic aims and priorities;
- (ii) an appropriate allocation of BEIS' budget for POL in the light of BEIS' overall expenditure priorities; and
- (iii) how well POL is achieving its strategic objectives and if it is delivering value for money.

POL's Accountable Officer ("AO")

6.2 As a public corporation, the PAO has designated POL's Group Chief Executive (GCE) as POL's AO and expects the GCE to observe the principles set out by HM Treasury in Managing Public Money ("MPM"), with particular regard to the Standards Expected of the Accounting Officer's Organisation summarised in Box 3.1 of MPM and set out in full at Appendix 1 of this Framework Document. POL's AO is personally responsible for safeguarding all funds for which he or she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those funds; and for the day-to-day operations and management of POL. In addition, he or she should ensure that POL is run on the basis of the standards of governance, decision-making and financial management set out in MPM, as well as ensuring that POL uses internal and external audit to improve its internal controls and performance. As part of these responsibilities, the Committee of Public Accounts may invite the AO to be a witness at its evidence sessions, in which case the AO will be expected to attend.

Shareholder policy and corporate governance roles

Responsible Minister

6.3 The Parliamentary Under Secretary of State and Minister for Small Business, Consumers and Corporate Responsibility provides ministerial oversight and support for key priorities and will typically account for POL-related business in Parliament.

Shareholder Policy Sponsor for POL (the "Policy Sponsor")

6.4 On behalf of the Shareholder, the Policy Sponsor within BEIS will have oversight of POL from a policy perspective. This role includes ensuring that POL's activity is consistent with the wider government policy framework, facilitating POL's access to government as required and responding to parliamentary scrutiny and reporting requirements. The Policy Sponsor will be POL's primary point of contact on policy matters and POL will facilitate the Policy Sponsor in fulfilling this function by providing relevant information on request. The Policy Sponsor is supported at a senior level within BEIS (usually director level) by a Policy Champion who has ultimate accountability for the policy relationship.

Shareholder's Representative

6.5 The Shareholder's Representative (a role currently performed by UKGI) oversees POL's corporate governance, strategy, and the stewardship of POL's financial and other resources on behalf of the shareholder. On these matters, the Shareholder's Representative is the main source of advice to the Policy Sponsor and the PAO, and the primary contact for POL's interaction with the Shareholder. The Shareholder Representative will work with the Corporate Governance Sponsor in the BEIS Partnerships Team as set out in the Memorandum of Understanding (MoU) between BEIS and UKGI which sets out their rules of engagement. and will perform the role set out in Appendix 4 of this document. POL will facilitate the Shareholder's Representative in fulfilling this function by providing relevant information on request including on but not limited to: strategic plans, financial forecasts and budgets, financial performance, achievements against targets, capital expenditure and investment decisions, POL Board appointments and remuneration, branch network information, and reports on key corporate risks.

Shareholder Meetings

6.6 A shareholder meeting will be held at least twice a year, to be attended at a minimum by the following individuals:

For the Shareholder

- (i) Shareholder NED;
- (ii) Shareholder Representative at Executive Director level;
- (iii) Policy Champion, and
- (iv) Policy Sponsor
- (v)

For POL

- (vi) Chief Executive Officer; and
- (vii) Chief Financial Officer.

POL's Board*Remit of POL's Board*

6.7 The activities of POL's Board will include (but not be limited to):

- (i) exercising control over the day-to-day operations of POL, ensuring that effective arrangements are in place to provide assurance on risk management, corporate governance, the use of public funds and internal control;

- (ii) remaining ultimately accountable to the Shareholder for delivery of POL's strategic aims and objectives as set out in the Group Strategic Plan; and
- (iii) ensuring that the Shareholder is kept informed of any significant changes which are likely to impact on the strategic direction of the POL Board or on the attainability of its targets, and determine the steps needed to deal with such changes; and
- (iv) ensuring that any statutory or administrative requirements for the use of public funds are complied with, and have regard to the relevant principles set out in the Government Code of Good Practice for Corporate Governance and in MPM, as well as the requirements under the Articles to seek consent for certain matters (see paragraph 3 above - Special Share).

Individual Board members' responsibilities

6.8 In addition to their statutory and common law duties, which include the duty to promote the success of POL for the benefit of the Shareholder and its wider stakeholder community. Board members should also have regard to the principles set out in the Code of Conduct for Board Members of Public Bodies. The directors will not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations. The Articles (Articles 54 to 55) set out the principles to be followed in relation to conflicts of interest of directors. Where there is potential for a perceived conflict of interest between Board membership and the shareholder function, the Shareholder Representative NED ("Shareholder NED") will recuse him/herself from the relevant Board decision and prioritise his or her obligations to the Shareholder. The appointment letter for the Shareholder NED will also contain provisions specifically on the approach to conflicts of interest (including perceived conflicts of interest).

Chair's specific responsibilities

6.9 The Chair oversees the Board and its members in exercising the above duties, ensuring that its policies and actions support POL's overall aims (as per paragraph 2 above) and the Shareholder's wider strategic policy (where relevant). In addition, the Chair will ensure that the Board acts with probity and that appropriate corporate governance structures and controls are in place in line with relevant governance codes and guidance.

6.10 In addition, the Chair has the following responsibilities and obligations:

- (i) formulating the Board's strategy;
- (ii) promoting the efficient and effective use of staff and other resources;
- (iii) ensuring that the work of the Board and its members are reviewed and are working effectively;
- (iv) ensuring that the Board has a balance of skills appropriate to directing POL's business;
- (v) ensuring that directors are fully briefed on terms of appointment, duties, rights and responsibilities; and
- (vi) assessing the performance of individual board members when being considered for re-appointment.

7 Board composition, appointments, remuneration and review

Composition of Board

7.1 In line with the Government Code of Good Practice for Corporate Governance, it is agreed between the Shareholder and POL that the Board will include a Non-executive Chair, a Group Chief Executive, a Chief Finance Officer and a number of Non-executive Directors ("NED"), one of whom should be a Senior Independent Director ("SID"). The Shareholder NED will represent the Shareholder's interest and will typically be an employee of the Shareholder's Representative. To assist in execution of corporate governance responsibilities, the Board has established three sub-committees – Audit Risk and Compliance; Nominations; and

Remuneration – each chaired by a NED, and the Board will regularly review these arrangements to ensure they remain appropriate.

Board member appointments, retirement and removal

7.2 Under the Articles (Articles 37 to 44]) all Board member appointments are subject to Shareholder approval and the Shareholder reserves the right to appoint and remove any person as a director of the company by notice in writing.

7.3 In practice, both parties agree that appointments to POL's Board will normally be conducted as follows, which is consistent with the *Governance Code on Public Appointments* and POL's status as a public corporation regulated by the Commissioner for Public Appointments (under the Public Appointments Order in Council of November 2017):

- (i) *Chair*. The Shareholder shall appoint the POL's Chair. This is considered a public appointment, which is regulated by the Office of the Public Commissioner for Public Appointment (OPCA), and the appointment process must follow the rules set out in the *Governance Code on Public Appointments*.
- (ii) *Shareholder NED*. The Shareholder shall appoint one senior UK Government official as its representative director to the POL Board.
- (iii) *All other directors*. POL's Board shall appoint the other directors on the advice of the Nominations Committee, subject to the prior written consent of the Shareholder. The Shareholder should also be consulted on the overall recruitment process, including the proposed terms and conditions of appointment, before that process begins. The request to the Shareholder for approval of the final appointment should be accompanied by a justification. This process also applies to proposals to re-appoint directors, and to the appointment of interim directors.

7.4 In accordance with the Articles, directors shall cease to be directors if they cease to be employees of POL or a Group Company. The employment contract of each director shall provide for a power of attorney enabling POL to execute a deed of resignation upon termination of his or her employment.

Board member remuneration, gratuities and pensions

7.5 The Articles (Articles 50 to 52]) set out the principles to be followed in relation to directors' remuneration, as well as gratuities and pensions (Articles 8.1(E)).

7.6 The Remuneration Committee shall recommend to the POL Board the remuneration policy and any changes to individual elements of the remuneration packages for members of POL's Board. As per the Articles, the remuneration of all Board members will require approval by the Shareholder. Remuneration of Board members that exceeds the threshold set in HM Treasury's *Guidance for Approval of Senior Pay* requires additional approval by the Chief Secretary to the Treasury.

Board Review

7.7 The Chair will ensure that the performance of the POL Board, its individual committees and its directors is evaluated at least once a year and act on the results of such evaluation. In particular, the Shareholder expects that an Annual Appraisal of the Chair and a Board Effectiveness Review shall be conducted by the SID, with input from UKGI/BEIS, and reported back to the Shareholder, typically via the Shareholder's Representative.

Subsidiary Boards

7.8 The Board of each Group Company other than POL may appoint other directors of the relevant Group Company in accordance with the recommendations of the Nominations Committee, subject to the following conditions:

- (i) prior written consent of the Shareholder shall not be required if the person who is proposed to be appointed is an employee of any member of the Group or a director of another member of the Group when they are proposed as a director; and
- (ii) no Group Company other than POL shall have non-executive directors appointed to its Board.

These conditions shall not apply to any Group Company subject to regulation by the FCA from time to time.

8 Essential publications

Annual report and accounts

8.1 As per the Companies Act 2006 (Part 15 Accounts and Reports), POL is required to publish an Annual Report of its activities, performance and forward plans, together with its audited accounts after the end of each financial year. These must also be laid before parliament. The Shareholder reserves the right to request additional reporting where reasonably needed to meet government-wide accounting requirements.

Network report

8.2 As per Section 11 of the Postal Services Act 2011, a Post Office company must send to the Shareholder each year a report to be laid before Parliament on its network of post offices, detailing:

- (i) the number and location of its post offices;
- (ii) the services provided;
- (iii) the accessibility of post offices to users of those services, particularly the groups specified in the act such as individuals living in rural areas and disadvantaged individuals; and
- (iv) such other information as the Shareholder may from time to time require.

9 Observance corporate governance guidelines

9.1 In acting in accordance with standards of corporate good governance, POL shall have regard to the government-wide corporate guidance applicable to public corporations listed in Appendix 3 (*Government-wide corporate guidance applicable to public corporations*) and any future relevant guidance as specified by Government and applicable to POL as a public corporation.

9.2 POL, as a public corporation, is exempt from Cabinet Office spend controls, as outlined in the exemptions section of the Cabinet Office Controls Policy paper. POL is also not subject Civil Service Pay Remit Guidance and, other than as set out in the Articles, POL's Board retains operational freedom to make remuneration decisions in the best interests of the business.

9.3 As at the date of this Framework Document, POL has agreed that it will observe the *Public Sector Pay and Terms*¹ as set out in Appendix 5.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819562/1907_02_Public_sector_pay_and_terms.pdf

9.4 In addition, POL should seek to comply with the principles and provisions of the Financial Reporting Council's UK Corporate Governance Code (the "Code"). To the extent that POL does not intend to observe the Code, the Shareholder Representative should be notified in advance.

Financial responsibilities and funding arrangements

10 POL's funding framework

Borrowing

10.1 During the term of the Funding Agreement, unless otherwise agreed between the Shareholder and POL, POL is not expected to borrow externally and, in any case, this will be subject to the limits and approval requirements set out in the Articles (Article 8.1(AA)). Any borrowing by POL from the Shareholder shall be subject to appropriate documentation to be agreed between the parties.

Government funding

10.2 The Shareholder has agreed to provide funding directly to POL under the Funding Agreement. Under the Funding Agreement, POL will typically receive a "Network Subsidy Payment" and/or a "Network Investment Payment" (together known as the "SGEI Payment"). The Network Subsidy Payment is designed to cover POL's net cost of maintaining a network of post offices beyond the optimum commercial size and the provision of SGEI over that network. The Network Investment Payment supports the development of POL's operations. The Funding Agreement details the full terms and conditions of such payments. Under the Funding Agreement, the POL Board is required to meet specific requirements in terms of preparing and reporting against a strategic plan covering the relevant funding term.

Return on capital

10.3 Since its incorporation, POL has been engaged in a substantial restructuring of its business whilst continuing to meet its obligation to deliver SGEI across a minimum network of post offices. As a result, POL has required financial support for the uneconomic parts of the network of post offices and investment funding to develop the commercial arm of the business and upgrade its ageing infrastructure. POL has therefore not been in a position to consider any return of capital to the Shareholder.

10.4 POL and the Shareholder hold a shared aspiration for POL to become commercially sustainable in the future. Should POL become commercially sustainable, the Shareholder holds a further aspiration for POL to adopt a dividend policy. The precise mechanism by which the amount of any dividend would be determined and paid will be agreed at the relevant time, subject always to the requirements of applicable law and the financial position of POL at the relevant time.

11 POL's delegated authority

11.1 As per the Articles of Association POL requires the prior written consent of the Shareholder for any undertaking to incur any expenditure in excess of £50,000,000.

11.2 The POL Board will put in place appropriate policies of financial delegation to the Group Companies. The Group Companies will seek to comply with the provisions of such policies.

Reporting performance, information exchange and confidentiality

12 Shareholder's right to information

12.1 POL will proactively endeavour to share information on key strategic or policy issues with the Shareholder. Under the Articles (Articles 9.1 and 9.2), the Shareholder may *"request such information in relation to the affairs of the group ... as it may consider necessary or desirable. The company shall use its reasonable endeavours to comply promptly ... but only in so far as the company has such information within its possession or such information can reasonably be obtained by it"* and may meet with *"such specified or other relevant directors and senior managers of the company ... to discuss the affairs of the group"*. The Shareholder may make such requests itself or via the Shareholder's Representative or Policy Sponsor. The Shareholder, Shareholder's Representative and Policy Sponsor may use the information as necessary to properly exercise the shareholder function on the understanding that due care will be taken in handling POL's information, as set out in paragraph 16 below. The appointment letter for the Shareholder NED contains further provisions specifically on the sharing of confidential information between POL and the Shareholder NED.

Notification

12.2 POL's Board shall, prior to taking any final decision on a Relevant Issue (as defined in paragraph 12.3 below), give the Shareholder written notice setting out all relevant details of the Relevant Issue and the preliminary decision (if any) reached by the Board, not less than 10 Business Days before the taking of any such final decision.

12.3 An issue is a "Relevant Issue" if, in the reasonable opinion of the Board:

- (i) it is not set out in reasonable detail in an approved Group Business Plan;
- (ii) it is an issue which may have a material adverse effect upon the business or financial prospects of the Group or any Group Company; or
- (iii) it relates to regulatory matters, such as any Group Company being referred for regulatory investigation by a relevant regulatory authority.

13 Reporting performance to the Shareholder

Regular reporting against the targets and budgets set out in the Strategic Plan

13.1 As well as meeting, and subject to, the requirements set out in the Entrustment Letter and the Funding Agreement, on a quarterly basis POL shall provide a report via the Shareholder's Representative setting out:

- (i) a summary of its performance over the previous quarter;
- (ii) information on its expected draw-down on any available SGEI Payment for the remaining duration of the strategic plan referred to in the Funding Agreement; and
- (iii) an update on delivery against its planned investments as stipulated in the Funding Agreement, and set out in the relevant Group Strategic Plan. Investment plans should include a look-ahead over the next three financial years.

13.2 POL shall provide a regular update, typically on a quarterly basis, on the performance of its branch network against the Overall Aims set out in the Entrustment Letter (see paragraph 2.2 above), to enable the Shareholder's Representative to assess compliance. POL will inform the Shareholder Representative ahead of such quarterly updates if POL fails to meet the objectives set out in paragraph 2.2 of this Framework Document.

POL's information

13.3 The Shareholder and Shareholder's Representative each acknowledge that they shall ensure that:

- (i) any information received or obtained from POL (including any Special Category Information as defined in paragraph 14.4 below) shall be treated as strictly confidential; and
- (ii) any such information is treated with at least the same degree of care that it uses for its own confidential information.

Reporting on legal risk and litigation

13.4 Notwithstanding the provisions of any protocol agreed under the terms of paragraph 14.2 below, POL shall also provide a quarterly update to the Shareholder's Representative on any active litigation and any threatened or reasonably anticipated litigation.

14 Special categories of information

Legally Privileged Information

14.1 The parties acknowledge the importance of maintaining the status of legally privileged documents, while at the same time ensuring that legal risks are communicated appropriately to the Shareholder.

14.2 In respect of any substantial piece of litigation involving POL, the parties will agree a litigation protocol which will include specific provisions to ensure the protection of legally privileged information which may be transmitted to the Shareholder from time to time in relation to that litigation. The parties will ensure that:

- (i) legally privileged documents and information are clearly marked as such;
- (ii) individual employees handling the privileged documents and information (including documents and information which are not marked legally privileged but by their nature are legally privileged or which the recipient knows or ought reasonably to know is legally privileged) are familiar with principles to which they must adhere to protect legal privilege; and
- (iii) circulation of privileged documents and information within HMG is kept to the minimum necessary.

Requests for Disclosure

14.3 For the purposes of this section, Special Category Information shall mean:

- (i) legally privileged information; and
- (ii) commercially sensitive information, in each case as marked by POL ("LEGALLY PRIVILEGED" or "COMMERCIALY SENSITIVE", as relevant) prior to the distribution of such information to the Shareholder or the Shareholder's Representative, or which is not marked as such but which by its nature is legally privileged or commercially sensitive information or which the recipient knows or ought reasonably to know is legally privileged or commercially sensitive information.

14.4 The parties acknowledge that the Freedom of Information Act 2000 (FOIA) and the Environmental Information Regulations 2004 (SI 2004/3391) (EIR) potentially apply both to information disclosed by POL to the Shareholder or the Shareholder's Representative and to information held by POL that is not disclosed to the Shareholder or the Shareholder's Representative. If the Shareholder or the Shareholder's Representative receives a request for the disclosure of any information that includes within its scope Special Category Information, it shall:

- (i) inform POL of the request; and
- (ii) allow a reasonable period for representations to be made by POL as to whether prejudice to its interests would occur were the Special Category Information to be disclosed, provided that POL shall make such representations within 10 Business

Days from the date of the notification by the Shareholder or the Shareholder's Representative.

14.5 The Shareholder or the Shareholder's Representative will have regard to any representations received pursuant to the above part (ii) but retain sole discretion as to whether any Special Category Information falls to be disclosed under FOIA or EIR.

LIST OF APPENDICES TO THE FRAMEWORK DOCUMENT

Appendix 1 Managing Public Money Box 3.1 – Standards Expected of the Accounting Officer's Organisation

Appendix 2 List of Government-wide Corporate Guidance Applicable to Public Corporations

Appendix 3 SGEI Social Purpose

Signed.....

Signed.....

Date.....

Date.....

(On behalf of the Shareholder)

(On behalf of POL)

Signed.....

Date.....

(On behalf of the Shareholder's Representative)

APPENDIX 1 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

HM Treasury Managing Public Money Box 3.1: Standards Expected of the Accounting Officer's Organisation

Acting within the authority of the minister(s) to whom he or she is responsible, the accounting officer should ensure that the organisation, and any ALBs it sponsors, operates effectively and to a high standard of probity. The organisation should:

governance

- have a governance structure which transmits, delegates, implements and enforces decisions
- have trustworthy internal controls to safeguard, channel and record resources as intended
- work cooperatively with partners in the public interest
- operate with propriety and regularity in all its transactions
- treat its customers and business counterparties fairly, honestly and with integrity
- offer appropriate redress for failure to meet agreed customer standards
- give timely, transparent and realistic accounts of its business and decisions, underpinning public confidence;

decision-making

- support its ministers with clear, well-reasoned, timely and impartial advice
- make all its decisions in line with the strategy, aims and objectives of the organisation set by ministers and/or in legislation
- take a balanced view of the organisation's approach to managing opportunity and risk
- impose no more than proportionate and defensible burdens on business;

financial management

- use its resources efficiently, economically and effectively, avoiding waste and extravagance
- plan to use its resources on an affordable and sustainable path, within agreed limits
- carry out procurement and project appraisal objectively and fairly, using cost benefit analysis and generally seeking good value for the Exchequer as a whole
- use management information systems to gain assurance about value for money and the quality of delivery and so make timely adjustments
- avoid over defining detail and imposing undue compliance costs, either internally or on its customers and stakeholders
- have practical documented arrangements for controlling or working in partnership with other organisations, as appropriate
- use internal and external audit to improve its internal controls and performance.

APPENDIX 2 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

Government-wide Corporate Guidance Applicable to Public Corporations

POL shall have regard to the principles set out in relevant sections of the following guidance documents:

Corporate Governance

- *Corporate Governance Code for Central Government Departments (April 2017)*
<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>
- *Guidance note that supports the Corporate Governance Code (April 2017)*
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609668/PU2076_corporate_governance_guidance.pdf
- *Code of Conduct for Board Members of Public Bodies (June 2019)*
<https://www.gov.uk/government/publications/Board-members-of-public-bodies-code-of-conduct>
- *Management of Risk: Principles and Concepts (July 2019)*
<https://www.gov.uk/government/publications/orange-book>

Financial Management

- *Managing Public Money (MPM) (March 2018)*
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742189/Managing_Public_Money_MPM_with_annexes_2018.pdf
- *HM Treasury and NAO Guidance on Tackling Fraud (2013)*
https://www.nao.org.uk/wp-content/uploads/2013/02/Tackling_External_Fraud.pdf
- *HM Treasury Consolidated Budget Guidance (particularly Chapter 11) (March 2019)*
<https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2019-to-2020>

Senior Appointments and Remuneration

- *Governance Code on Public Appointments (December 2016)*
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/578498/governance_code_on_public_appointments_16_12_2016.pdf
- *HM Treasury Guidance for approval of Senior Pay (January 2018)*
<https://www.gov.uk/government/publications/senior-civil-service-pay-and-reward>

Other

- *Whistleblowing Guidance and Code of Practice (March 2015)*
<https://www.gov.uk/government/publications/whistleblowing-guidance-and-code-of-practice-for-employers>

APPENDIX 3 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

POL Social Purpose

POL's current agreed Social Purpose is as follows:

"The Post Office is unique: a commercial business set apart by its public purpose. We believe in the importance of connecting communities and enhancing the powerful role they play in all our lives. We will stay true to this commitment by meeting customer needs through our unrivalled local presence across the UK.

This statement is underpinned by a set of principles and pledges.

To deliver our purpose POL run our organisation by following four principles:

- Keep customers at the heart of everything we do
- Build relationships based on trust
- Treat everybody with fairness and honesty
- Make a positive social and economic contribution to all the communities in which we work

As an organisation POL pledge to:

- Maintain ethical attitudes in our behaviours
- Invest in the organisation to secure the business for the future
- Listen with care to the views of customers, colleagues and others with an interest in the Post Office, and support their development"

APPENDIX 4 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

Description of the Shareholder Representative

The role of the Shareholder Representative, as performed by UKGI, consists of the activities set out below. In relation to these activities, the Shareholder Representative will provide advice to the relevant ministers and Principal Accounting Officer, in consultation with BEIS officials.

Maintain appropriate and effective corporate governance foundations which govern the department-asset relationship

1. work with BEIS and POL to **maintain appropriate corporate governance documents and systems** which will govern the relationship between BEIS and POL, through up to date and fit for purpose governance documents, including Framework Documents, Articles of Association where relevant, board Terms of Reference, chair letter.

Review and provide oversight of effective objectives, business planning and performance against business plan

2. monitor, assess and constructively challenge from an owner's perspective the POL's Group Plans, the clarity of the objectives, the quality of the Group Plans and the financial, and where relevant commercial, strength underpinning it, and its effectiveness as a tool for POL.
3. Monitor, assess and constructively challenge POL's **performance** against its Group Plans or equivalent document, in terms of how POL is performing as an organisation (as opposed to monitoring the success of the policy delivery itself).
4. if there is a UKGI Shareholder NED on the POL Board, assess and constructively challenge POL's Business Cases, and other HMG approvals outside POL's executive delegations, through that NED position on POL's Board *only* (this will be limited to the degree of challenge that any non-executive board member can provide). Provide advice to BEIS and ministers on HMG approvals outside POL's executive delegations, working closely with BEIS Finance.

Oversee the promotion of strong corporate capability

5. through the UKGI shareholder team, as well as the UKGI Shareholder NED on POL's Board, promote the **strength of POL's governance systems which support organisational performance**, by assessing and providing high level constructive challenge to POL on:
 - a. governance framework compliance – defined as POL's view on its compliance with its governance framework (as set out in its Framework Document, delegated authorities, and any other specified governance documents); and
 - b. the adequacy and strength of POL's reporting to the department on these issues.

Review and provide oversight of effective leadership (high quality boards and senior management)

6. promote the **effectiveness of POL's leadership**, specifically through:
 - a. promoting high quality and diverse boards, assessing and challenging the POL Board's capability and effectiveness, and monitoring POL's succession planning;
 - b. promoting the implementation of effective board composition, recruitment, remuneration and appointment processes;
 - c. providing a UKGI Shareholder NED on POL Board in accordance with paragraph 8 below; and
 - d. giving a view on POL's Board level executive capability in relation to its responsibilities, and remuneration.

Promote effective relationships between BEIS and POL

7. support effective relationships between BEIS and POL, including through:
 - a. the UKGI Shareholder NED and UKGI shareholder team building effective relationships with POL Board and senior management;
 - b. promoting effective interfaces and communications between the department and POL, including through regular shareholder meetings; and
 - c. promoting an effective regular meeting "rhythm" between the POL chair, Board and executive to ensure appropriate flow of information (management information) between POL, UKGI and BEIS, including effective reporting to BEIS.

Supporting and supplementing the activities above by providing a UKGI Shareholder NED on POL's board

8. provide an appropriate board member to carry out the non-executive director role effectively, drawing on the support and analysis from the UKGI shareholder team. The UKGI Shareholder NED to:
 - a. be a member of POL's Remuneration Committee and Audit and Risk Committee;
 - b. act as an interlocutor between the department and the POL Board; and
 - d. provide a view to the department on the strength of the POL Board.

APPENDIX 5 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

POL's observance of the Public Sector Pay and Terms

As agreed between POL and UKGI in October 2019, POL will observe the Public Sector Pay and Terms (the "Terms") going forward. Most notably, POL and UKGI have agreed:

- As per paragraph 1.8 of the Terms, public sector employers should not offer private medical insurance. Correspondingly, POL will not offer private medical insurance (PMI) to new joiners;
- The 95k cap on exit payments set out in paragraph 1.3 of the Terms does not currently apply to POL, although this may be revisited by HMT in the future; and
- It continues to be the case that the Civil Service Pay guidance (which caps pay growth for the whole organisation) does not apply to POL.