

In Strictest Confidence

POLB(09)1st
POLB 09/01 – POLB09/12

Post Office Limited

(company no. 2154540)

Minutes of the meeting of the Board
held at 80-86 Old Street, London
on January 19th 2009

Present:

Alan Cook	Managing Director, Post Office Limited (Chairman of meeting)
Peter Corbett	Finance Director
Mike Young	Operations Director
David Glynn	Sales Director
Gary Hockey-	Marketing Director
Morley	
Debbie Moore	HR Director
Paula Vennells	Network Director
Sue Whalley	Strategy Director

In attendance:

Neil Owen	Notes
Stephen Hirst	Head of Accounting (for POLB09/02)
Simon Whale	Head of Strategy Planning (for POLB09/03)

Apologies

Allan Leighton	Chairman, Royal Mail Holdings plc
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PREVIOUS MINUTES

- (a) The Board approved the minutes of the previous meetings held on 20th October 2008 and 24th November 2009;
- (b) The Board noted the Investment Committee minutes of 9th October, 22nd October, 6th November, 19th November, 4th December, 17th December 2008;
- (c) The Board noted the POFS minutes of 19th November 2009 and 16th December 2009;
- (d) The Board noted the FRES minutes of 29th April 2008 and 23rd July 2008.

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STATUS REPORT POLB(09)01

- (a) The Board noted the report which showed all actions from the previous meeting were completed or in hand. The Board also noted that:

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- (b) Crown Offices: POLB08/47(b): Mike Young reported that any Crown Office relocation would now be screenless. An example of this was the format being used for the Peterborough relocation. Where there was a Bureau position then this would be fortress but the remainder would be screenless;
- (c) Sourcing Counsel: POLB08/47(e): the role of the Group Sourcing Counsel going forward would be to drive Group Sourcing contracts rather than consider subsidiary contracts. The procurement function would then maintain links to the individual business units. An opportunity existed for POL to create its own sourcing counsel timed to coincide with investment committee meetings.

POLB09/03**BALANCED SCORECARD POLB(09)02**

- (a) Simon Whale presented the period 9 balanced scorecard to the Board, It was noted that:
- (b) Customer acquisition and sales had continued to track at lower than expected levels which could create difficulties towards the end of the year However it was not in the long term interests of the company to significantly ramp up spending in an effort to increase sales;
- (c) since the closure programme footfall had decreased, but each customer was averaging a higher number of transactions. It was agreed that an 'official' footfall figure would be provided for external presentation purposes;
- (d) the Board reviewed the Balanced Scorecard Actions and Simon Whale updated the action log.

POLB09/04**FINANCE FUNCTIONAL REPORT POLB(09)03**

- (a) Peter Corbett presented the finance report to the Board;
- (b) from March 2009 the Company would have less than two years of funding remaining. The impact of a possible restructuring at Royal Mail Group may also impact on the Company's funding arrangements. As a result, it may be necessary for the Board to review the funding position on a regular basis again;
- (c) the operating profit at month 9 was £4.3m ahead of budget, (£0.4m) deterioration in the month. During December Net Income missed target by (£4.2m) and with product and channel costs largely on budget this produced a budget shortfall against operating contribution of (£3.9m). It was central, overhead and activity costs that were under budget to off-set this shortfall and reduce the adverse profit variance. The forecast profit for this year continued to be £35m, to exceed target by £3m, which reflected the additional reduction in the contribution to pensions after the budget was set. Falling interest rates were reflected in

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the forecast for bank commission from Card Account, and offset by reductions in group overhead costs and continuing saving in non-staff costs;

- (d) the cash outflow to month 9 has been £95m which is some £260m better than target; down from the £185m we were ahead last month. This represents early achievement of the target from 3 key items:
- (i) £74m of this was due to timing of exceptional costs such as the branch closure compensation, £23m and redundancy, £33m;
 - (ii) the improved arrangement with JP Morgan to receive on the same day the value of Card account payments made before 1.30 p.m. had contributed £26m;
 - (iii) improved cash holdings of £108m better than budget delivered through lower foreign currency, cheques, cash centre holdings, and bank balances. Sterling in branches was slightly worse than target;
- (e) the high-level budget agreed by ET in December has successfully been broken down into detailed cost centre and cost item budgets as reported to ET on 12th January. The key risks identified are £4m against travel contribution, and the continuing exposure to Card Account commission to reductions in LIBOR. This could be up to £15m unless rates start to climb again during the next 15 months. The submission to Group should be signed off on 26 January;
- (f) the Board noted the performance pack.

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NETWORK FUNCTIONAL REPORT POLB(09)04

- (a) The Board noted the report and in particular that:
- (b) Crown Network: the Financial Services Specialists project remained on track. The agreed moratorium would allow the Performance Management team to have an impact and to embed the Training and Development Framework;
- (c) Network Change: as at the end of December, 2248 branches have been closed and a further 283 outreach solutions implemented. 13 area plans had now concluded in full with all closures, outreaches and replacement activities implemented. The National Audit Office meeting on 7th January was constructive with no indication of any significant negative issues;
- (d) Restrictions: the indications were that the Co-op was likely to support the restrictions policy and ask paypoint to pull out. However some contractual issues existed and it remained important for POL to win the EON contract.

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MARKETING FUNCTIONAL REPORT POLB(09)05

(a)

Irrelevant

- (b) ATMs: It had been confirmed to Bol that POL did not wish to proceed with an extension to the current ATM Agreement at this stage, but that the rollout of external ATMs and Internal ATMs (on a limited basis) would continue as detailed in the ATM business case. Meetings had been scheduled with Bol to take forward the agreement on this basis and for the work undertaken on contract extension to be "boxed-up" in order that it can be easily revisited at a future date if required;

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SALES REPORT POLB(09)06

- (a) The Board noted the report, and in particular that;
- (b) total POL sales P9 YTD income from Focus and Standard products is £529m (£21.8m below target). YTD P9 Focus product income now stood at £122.99m, some £13.86m below target (89.9%). Standard product income is at £ 405.95m (98% of target), which left a £7.9m gap YTD, a shortfall mainly coming from Financial Services;
- (c) performance over the key weeks (36-38) leading up to Christmas was very disappointing, with focus product income only achieving 73% of target (£3.15m gap) in this period, and Standard product income achieving 90% (£4.23m gap). This was primarily due to very high calendarised targets for Special Delivery, and slow performance on Travel, Etop ups, Savings and Personal Banking;
- (d) the 3 main contributors to this focus product underachievement, totalling 65.6% of the gap, were combined travel insurance, E Top Ups and Passports. Evidence of ongoing economic turbulence can be seen in the material year on year volume declines in P9 across entire network and all products pillars;
- (e) there remained a need for smaller SPDOs to focus on certain products. Incentives were currently provided through the commission mechanism. It was agreed that Gary Hockey-Morley and David Glynn would provide a focus product presentation for the sub-postmasters conference. Simon Whale would be consulted as to how this would work.

ACTION:
Gary Hockey-Morley
David Glynn

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OPERATIONS REPORT POLB(09)07

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- (a) The Board noted the report, and in particular that;
- (b) Fujitsu: there were risks of delays to the volume and integrity and Migration test rigs. Problems were ongoing throughout December, and the rigs were not now expected to be available until mid/late January. This would represent a 4-8 week slip if viable mitigations cannot be identified. Work was on-going to ensure that no further slippage occurs to the delivery of rig or network components and to assess options to minimise the impact on the overall rollout dates. It was not anticipated that the full rollout date in September will be impacted. Sue Whalley asked for clarification as to whether any delays would impact on other programmes;
- (c) Paystation Plus: migration from legacy host (ITRv1) to new host ITRv2 continued successfully. Platform performance and stability over the busy Christmas period was very good. 90% of terminals now on ITRv2;
- (d) Card Account Project: further contract agreement sessions were held from 6th- 8th January including commercial, security, implementation and solution provisions. Expected signature date was the end January 2009.

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HR REPORT POLB(09)08

- (a)
- (b)
- (c)

Irrelevant

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STRATEGY REPORT POLB(09)09

- (a)

Irrelevant

- (b) The Board noted the report.

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CLOSE

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

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DATE OF NEXT MEETING

The next meeting of the Board was scheduled for 20 April 2009.