

Royal Mail – Strictly Confidential

POLB(11)4th
POLB 11/18 - 22

Post Office Limited
(company no. 2154540)

Minutes of the meeting of the Board of Directors
held at 100 Victoria Embankment, London, EC4Y 0HQ on 27 May 2011

Present:

Donald Brydon	Chairman, Royal Mail Holdings plc
Matthew Lester	Chief Finance Officer, Royal Mail Group
Mike Moores	Finance Director, Post Office Ltd
Les Owen (by phone)	Non Executive Director, Royal Mail Holdings plc
David Smith	Chief Customer Officer, Royal Mail Group
Paula Vennells	Managing Director, Post Office Ltd

In attendance:

Jon Millidge	Company Secretary, Royal Mail Group
Susan Crichton	Company Secretary, Post Office Ltd

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MATTERS ARISING

ACTION:

Jon Millidge

- (a) The Board was advised that the Group Chief Executive had been briefed on the remit proposals for the Supply Chain employees. The Board asked that the remit be circulated to the Royal Mail Holdings Board for approval.

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FINANCIAL STATEMENTS FOR 2010-11 POLB(11)19

- (a) The Board reviewed the draft financial statements for 2010-11 and the covering paper produced by Mike Moores. The Board noted that:
- i. As a legal entity within the Group structure the Company had to produce audited financial statements and its results would be included within the Group consolidated financial statements;
 - ii. Post Office Ltd's statutory financial statements would be signed at the same time or within a few days of the Group financial statements;
 - iii. There had been no new accounting standards affecting the presentation of the financial statements nor any change in accounting policy;
- (b) the Board considered the review of the going concern position outlined in Annex B of the paper. The Board agreed that the approval of the State Aid submission given on 23 March 2011 had improved the going concern position of Post Office Ltd and that the Company was in a position to meet its liabilities as they fell due for the foreseeable future. The Board noted that the continuation of this position would depend upon the state aid process for the working capital facility, the equity funding and the Network Subsidy Payment for 2012/13 to 2014/15;
- (c) The Board noted that the Royal Mail Group Board had not yet

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concluded on the going concern status of the Group and it was not therefore possible to conclude that Post Office Ltd was a going concern. The Board agreed, however, that subject to the Group concluding that it was a going concern, the financial position as presented supported the Board in concluding that Post Office Ltd was a going concern;

- (d) Mike Moores and Paula Vennells confirmed that the letter of representation was an accurate reflection of the position and assured the Board that it could rely upon their assurance. The Board thanked them for their confirmation and noted that it relied upon that in approving the letter. The Board further noted that the Royal Mail Group Audit and Risk committee had considered the effectiveness of the controls relating to the financial statements. Further the Group CEO and POL acting Chairman had met with the auditors to discuss the issues arising and accordingly the board confirmed that it was satisfied that the disclosure relating to controls in the company's financial statements was adequate. The Board noted that the next agenda item covered one such issue;
- (e) the Board noted the summary of Audit Differences in Annex C and concluded that they were not material;
- (f) the Board noted the undertakings and statements in Annex D. Subject to the Royal Mail Group Board concluding that the Group was a going concern, the Board approved the financial statements and appointed a sub committee of any two directors of Donald Brydon, Matthew Lester and Paula Vennells to sign off the final statement. All directors were invited to submit any final comments to Mike Moores who would also ensure that there were no inappropriate differences between the Group and Post Office statements.

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FINANCIAL AUDIT (IT) COMMENTARY

- (a) The Board noted that the auditors had raised concerns about the IT change management processes, access controls, the Fujitsu managed service and POL's oversight and assurance of key activities. Lesley Sewell had been invited to advise the Board on the steps taken to improve the controls;
- (b) the main issue of concern centred around the inability to use a SAS70 standard for evidencing that the controls are in place. These had two main concerns for the Board:
 - i. Without the SAS70 controls it was difficult to evidence that the controls were in place. Such a protocol was standard in all major organisations operating in North America and it was difficult to conceive that an organisation as large as Fujitsu would not have such an arrangement;
 - ii. The cost of audit would increase if there were no such arrangements in place;
- (c) the Board noted that activity had already commenced to remedy the issues identified by Ernst & Young, including establishing a POL IT

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Board. The Board agreed that the end result should be that either SAS70 applies or a set of controls is established that Ernst & Young are happy with.

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ANY OTHER BUSINESS

- (a) The Board noted that the State Aid application for funding from 2012-13 to 2014-15 had been pre-notified to the European Commission. There was some concern about the Commission's view that it may be covered by the Postal Service Directive;
- (b) the Chairman advised the Board that good progress was being made with a preferred candidate for the role of POL Chairman. He also advised that a meeting had been held internally and with the Shareholder Executive on progressing new governance arrangements;
- (c) the Chairman noted that this was the last Board that Mike Moores was scheduled to attend and he expressed his gratitude and that of the Company for Mike's service to Post Office Ltd and the wider Group.

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CLOSE

- (a) There being no other business, the Chairman closed the meeting.