

Post Office Limited – Strictly Confidential

POLB 15(1st)
POLB 15/01 - 15/23

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

Minutes of a Board meeting held on 28 January 2015
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 |
| Alasdair Marnoch | Non-Executive Director |
| Richard Callard | Non-Executive Director |
| Paula Vennells | Chief Executive |
| Alisdair Cameron | Chief Financial Officer |

In Attendance:

| | |
|---------------------|--|
| Alwen Lyons | Company Secretary |
| Neil Hayward | Group People Director (minute POLB 15/4-15/6) |
| David Ryan | Business Transformation Director (minute POLB 15/5-15/7) |
| Martin Edward | Head of Financial Strategy (minute POLB 15/5-15/6) |
| Lesley Sewell | Chief Information Officer (minute POLB 15/7 only) |
| Jane MacLeod | General Counsel (minute POLB 15/9 only) |
| Chris Aujard | General Counsel (minute POLB 15/9 only) |
| Arnout Van Der Veer | Head of Risk & Assurance (minute POLB15/9 only) |
| Martin George | Commercial Director (minute POLB 15/10 only) |
| Mark Siviter | Head of Mails (minute POLB 15/10 only) |
| Kevin Gilliland | Network & Sales Director (minute POLB 15/11 only) |
| Mark Davies | Communications & Corporate Affairs Director (minute POLB 15/12 only) |
| Tony Smith | Head of CPNI (minutes POLB15/8 only) |

POLB 15/01

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting.

POLB 15/02

CHANGE OF DIRECTORS

- (a) The Board approved the appointment of Alisdair Cameron and noted that Chris Day would cease to be a director with immediate effect.

ACTION:
CoSec

- (b) The Company Secretary was authorised to make all the necessary filings with Companies House.

POLB 15/03

CEO'S REPORT

- (a) The CEO introduced her report and focussed on the following key areas for discussion with the Board:

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- (b) Cost Reduction The CEO was pleased to report the excellent progress made by the Business - the forecast was to overachieve the £60m target by £1.7m. She recognised the work done by David Ryan, Business Transformation Director, and stressed that the focus on cost reduction would continue into the new financial year. The first wave of staff efficiencies was taking place and planning for the second wave, focussed on managerial role was underway.

(c)

ACTION:
CEOACTION:
Mark DaviesACTION:
Pete Markey

(d)

(e)

(f)

(g)

ACTION:
Nick Kennett

POLB 15/04

2014/15 FINANCIAL PERFORMANCE AND SCORECARD

- (a) The Board welcomed Neil Hayward, Group People Director, to the meeting.
- (b) The CFO gave the Board an update on:
- the financial performance in December 2014 and YTD;
 - the expected financial outcome for 2014-15; and
 - the expected outcome on the performance scorecard.
- (c) The CFO considered that in his opinion, the £880m revenue forecast still contained a degree of optimism. The Board discussed the revenue trajectory and the Q4 revenue required to achieve the forecast.
- (d) The Board asked when the new FS incentive scheme would be launched. Neil Hayward explained that the detail had been sent to the

Irrelevant

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CWU on 18th December. The Board discussed the importance of retaining the focus on Treating the Customer Fairly as well as incentivising sales and agreed that the ARC should continue to monitor the FS sales risk measures.

ACTION:
Kevin Gilliland

- (e) The Board recognised the importance of Q4 for ISA sales and asked the Business to ensure that they had the necessary sales focus in place.

ACTION:
CFO

- (f) The Board discussed the telephony revenue and asked if the contract had been changed to rectify the revenue/cost disparity for increased customer usage. The CFO agreed to circulate a note to clarify.
- (g) The CFO highlighted that Q3 was the first quarter of the year to deliver an EBIT above plan and he was hopeful that the Business would be able to close the EBIT gap further in Q4.

ACTION:
Pete Markey

- (h) The Board discussed the scorecard and the poor performance on 'easy to do business with'. The CEO acknowledged the significant drop against target and last year's result. It was agreed that a note would be circulated to explain the change.
- (i) The CFO explained that Q4 still contained some big one-off risks and opportunities and that the EBIT could range from £83m to £103m, although he was comfortable with the £95m currently being forecast. Likewise the Bonus could range between 12.5% and 70%, with a current forecast of 50%.
- (j) The Board discussed the Crown P&L target and agreed to the principle that the initial 373 Crown branches be analysed to produce a like for like breakeven analysis.
- (k) The Board noted the performance and improved full year forecast. The Board further noted that there were a number of key dependencies for this improved full year forecast to be achieved.

POLB 15/05

UPDATE ON THE 2015/16 OPERATING PLAN AND THREE YEAR OPERATING PLAN

- (a) The Board welcomed David Ryan, Business Transformation Director, and Martin Edwards, Head of Financial Strategy, to the meeting.
- (b) The CFO updated the Board on the preparation of the 2015/16 Annual Operating Plan and introduced the proposed approach to the three year plan, providing an interim update on the latest financial projections through to 2017/18.
- (c) An EBITDAS target of £35m was proposed for 2015/16, continuing the improvement of the last three years but falling short of the breakeven target in the strategic plan.
- (d) The CFO explained that he believed that the Business was being over optimistic on revenue, especially in Mails, which had not factored in RMG's promotion of online postage. He did not think the level of over optimism was as significant as it had been in the 2014/15 budget but

ACTION:
Martin Edwards

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he wanted a more realistic approach in the budget and three year plan. The Chairman stressed the need for realism.

- (e) The CFO recognised the need for a £10m contingency to support the £35m EBITDAS target proposed for 2015/16. This would be built into the budgets agreed with individual functions. Neil Hayward reminded the Board that an EBITDAS target of £35m would not hit the LTIP target, the Business would need to deliver an outturn of £26m to trigger the LTIP.
- (f) The Board discussed the current risks and opportunities highlighted in the plan and the need to continue to focus on reducing costs. The CFO recognised the need to manage working capital to enable the Business to deliver the plan without further borrowing.
- (g) The CEO explained that the Business scorecard and bonus measures would be discussed at the RemCom in February.
- (h) The Board discussed the objectives for the three year operating plan, the first year of which would be the budget for 2015/16. The CFO promised a draft to the Board in March and the final plan in May.
- (i) The Board asked for a page showing the 2012/13 to 2017/18 strategic plan against the outturn for past years and the forecast for future years, to be included as a baseline in the three year operating plan.
- (j) Martin Edwards explained that the plan would contain milestones and change activity, along with major events and a log of material risks and opportunities. The Board asked that the plan showed the assumptions being made so that they could understand the choices available to the Business.

POLB 15/06

BUSINESS TRANSFORMATION

- (a) The Board thanked David Ryan for the focus he had set the Business on cost reduction and the performance to date.
- (b) The Board received an update from David Ryan on the Business Transformation Programme and the actions arising from the November Board. David Ryan reported that he now believed a 20% reduction in change resource was possible as part of wave 2, taking the team down from its current 80 FTEs to circa 60.
- (c) David Ryan proposed that the Back Office Application Tower (BOAT) work, which had been suspended to consider alignment with the wider back office outsourcing, should now go ahead. The added risks and cost of any further delay to BOAT outweighed any possible small advantage. The Board agreed that the risks outweighed any benefits and that the Business should focus on the front office changes. David Ryan would circulate a briefing note to the Board once the final BOAT and back office timelines were agreed.
- (d) David Ryan explained that he was focussing on three areas for Business Transformation:
 - i. Driving the cost savings this year and next to get to a

ACTION:
David Ryan

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- stretch target
 - ii. Delivering a 3 year plan, aligned with the operating plan, with Business Transformation milestones, which he agreed to report to the Board on in May
 - iii. Introducing joined up governance through design authority and a Transformation Working Group, escalating to the Transformation Committee to ensure that all activity is considered through a transformation lens.
- (e) David Ryan stressed that the technology agenda was mission critical and needed to take precedence.
- (f) The Board noted the update.
- (g) Neil Hayward and Martin Edwards left the meeting.

POLB 15/07

IT STRATEGY

ACTION:
Lesley SewellACTION:
Lesley SewellACTION:
Mark Davies

- (a) The Board welcomed Lesley Sewell, Chief Information Officer, to the meeting and received an update on: the progress against the key initiatives within the 2020 Strategy; the progress on developing the IT Strategy and alignment with Business Transformation; and the key risks, mitigations and contingency plans.
- (b) The Board discussed the changes to the front office system and Lesley Sewell stressed the need for the front office changes to be given primacy over all other Business initiatives. It was recognised that standardising and simplifying products and systems would reduce cost and complexity for suppliers and risk for the Company. The CEO assured the Board that the Executive recognised the need to simplify products and processes and that the IT strategy was being managed through the Executive.
- (c) A preferred bidder (from Accenture, IBM and CSC) would be chosen by the end of March.
- (d) The Board asked the Business to consider the failures in other Business' big IT projects to better understand the possible risks; and to report back to the Board on their analysis and its relevance to the Post Office.
- (e) The Board discussed Sparrow and any perceived or actual risk for sub-postmasters of the system change. The Business was asked to ensure independent assurance of the system's integrity and security before it goes live, with a forensic end to end assurance.
- (f) The Business was also asked to consider how it would manage the PR implications of announcing the change whilst Sparrow is still ongoing.
- (g) Lesley Sewell explained that the plan was to run the new and old systems in parallel for 6-7 months and the need for the new supplier to work closely with Fujitsu. The Board asked if the new supplier and Fujitsu would have back to back contracts to mitigate the commercial

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risk for the Business. Lesley Sewell assured the Board that this was the plan but still recognised the Fujitsu exit as a significant risk.

- (h) The Board asked how the Business would future proof the new system and were reassured that this would be as standard a system as possible, enabling additional 'plug in' improvements for software developments.
- (i) The Board noted:
 - the progress against the key initiatives within the 2020 Strategy
 - the progress on the IT Strategy and alignment with Business Transformation
 - the key risks, mitigations and contingency plans
 - that the team would revert back to the Board as follows:
 - March 2015 – Strategy update and alignment to Operating Plan
 - May 2015 – to seek authority for the Network Tower award
 - May 2015 – to seek authority for Front Office Tower award
- (j) David Ryan and Lesley Sewell left the meeting.

POLB 15/08

(a)

Irrelevant

POLB 15/09

RISK APPETITE

- (a) The Board welcomed Chris Aujard, General Counsel, Jane MacLeod, General Counsel and Arnout Van Der Veer, Head of Risk and Assurance, to the meeting and received a request to approve the Company's Risk Appetite Statement (RAS).
- (b) Chris Aujard explained the process used to develop the RAS and the discussions at ExCo and the ARC. The RAS established the ground rules for the Business and would help to drive behaviours. Arnout Vanderveer recognised that it would take time to embed risk into the Business and ensure that decisions were aligned with the RAS.
- (c) Alasdair Marnoch, Chairman of the ARC, acknowledged that the RAS was a good step forward, albeit that the process had been slow. He was encouraged by the discussions at both ExCo and the ARC and believed the RAS was a good basis upon which to build. He asked that the RAS, with risk metrics, be presented to the ARC and Board in May.
- (d) Jane MacLeod recognised that the RAS would develop. She wanted to develop a framework which would mature and change to drive

ACTION:
Arnout Van Der
Veer

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business decisions.

ACTION:
CoSec

- (e) The Board asked that all future Board papers included a risk section which related back directly to the RAS.
- (f) The Board agreed to adopt the RAS.
- (g) Jane MacLeod, Chris Aujard and Arnout Van Der Veer left the meeting.

POLB 15/10

ACTION:
Pete Markey

(a)

(b)

(c)

(d)

(e)

(f)

(g)

ACTION:
Mark Siviter

(h)

Irrelevant

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ACTION:
Mark Siviter

(i)

Irrelevant

(j)

(k)

POLB 15/11

NETWORK TRANSFORMATION, MODEL PERFORMANCE AND CROWN TRANSFORMATION Q3 2014

- (a) The Board welcomed Kevin Gilliland, Network & Sales Director, to the meeting and received an update on Network Transformation, performance of the new models and progress on Crown Transformation.
- (b) Kevin Gilliland was pleased to report that the Business had already hit its target of 1650 NT branches opened in the year and was expecting to have 4000 NT branches by March. He reported relative success with the guided leaver programme and wanted every office to know what was happening to their branch before the IT front office changes.
- (c) Kevin Gilliland reminded the Board that the sub postmasters' contract requires the Business to give 3 months' notice to sub postmasters but that the proposed cliff would give 6 months. It was his intention to have started conversations with all sub postmasters before May. The September cliff had always been indicative and because NT was ahead of plan the Business needed to bring this forward to keep up the conversion rate.
- (d) The Board agreed that the term cliff was unhelpful and that the Business should try to smooth the changes as much as possible.
- (e) The Board asked how the NFSP and George Thomson are likely to react to the change. Kevin Gilliland hoped that George Thomson would understand the need to bring the date forward but he was comfortable that this was the right thing to do irrespective of the NFSP position. The Board noted that the MoU with the NFSP had still not been agreed.

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ACTION:
Kevin Gilliland

- (f) The Board discussed the Crown Office P&L and getting the 373 branches to breakeven. They recognised that some Crown branches were still making a loss and that the Business would now deal with these as Business as Usual. Kevin Gilliland was asked to set new targets for the next 3 years with a specific focus on the untapped potential in Financial Services.

- (g) The Board noted the update, and thanked Kevin Gilliland and his teams for the Network and Crown transformation results.

- (h) Kevin Gilliland left the meeting.

ACTION:
Virginia Holmes

- (i) The Board recognised that ISA sales should be the focus for the next 3 months and Virginia Holmes agreed to discuss this with Kevin Gilliland.

POLB 15/12

SPARROW

- (a) Mark Davies, Communications & Corporate Affairs Director, joined the meeting.

- (b) The Chairman explained that the agenda item was to update the Board on the BIS Select Committee on 3rd February.

- (c) Mark Davies described the Select Committee process and explained that the Business had been asked to appear to give evidence. The CEO would represent the Business. Other attendees were JFSA, NFSP, CWU and Second Sight. He explained the work being done to prepare for the Committee and the likely media activity.

- (d) Mark Davies reported that the Business had received a letter from the Criminal Case Review Commission (CCRC) asking for information on the Criminal cases involved in Sparrow. The Business had 28 days to respond to the CCRC.

- (e) The Board discussed the possible outcomes from the Committee. The Chairman explained that the Board Sparrow Sub Committee would consider options and next steps at their next meeting.

- (f) Mark Davies left the meeting.

POLB 15/13

ACTION:
CEO/ Virginia
Holmes

- (a)

- (b)

- (c)

Irrelevant

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ACTION:
Nick Kennett/
Chris Aujard

(d)

Irrelevant

POLB 15/14

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meetings held on 21 October, 18 November, 26 November and 14 December 2014 were approved for signature by the Chairman.

POLB 15/15

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
- the Sub-Committee to approve the interim report and accounts meeting held on 19 November 2014
 - the Audit, Risk and Compliance Committee meeting held on 10 November 2014;
 - the FS Sub-Committee meetings held on 14 October and 3 December 2014; and
 - the Pensions Sub-Committee meeting held on 8 October and 3 December 2014;
 - the Post Office Advisory Council meeting held on 12 November 2014; and
 - the Sparrow Sub-Committee held on 12 January 2015.

POLB 15/16

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.
- (b) The Board noted the update on Project Ultra and the draft forward agendas.

POLB 15/17

UPDATE FROM THE AUDIT, RISK AND COMPLIANCE COMMITTEE

- (a) Alasdair Marnoch, Chairman of the Audit, Risk and Compliance

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Committee, updated the Board on the last Committee meeting.

- (b) The ARC was more comfortable with the approach to risk, although they wanted to continue to monitor Treating the Customer Fairly. The Business had now set up a major incident team which it was in the process of testing. The Internal Audit plan would need to come to the Board in March.

POLB 15/18

(a)

(b)

(c)

Irrelevant

POLB 15/19

(a)

(b)

ACTION: CFO

POLB 15/20

CHANGE OF REGISTERED OFFICE

- (a) The Board:
- approved the change of registered office for the Company from 148 Old Street, London, EC1V 9HQ, to 20 Finsbury Street, London EC2Y 9AQ;
 - agreed to provide written consent for the change of registered office for POMS in the form presented, giving a duly appointed director or company secretary authority to sign the consent.;
 - noted the change of registered office for Postal Services Holding Company Limited; and
 - authorised the Company Secretary to make all necessary filings with Companies House.

POLB 15/21

ITEMS FOR NOTING

- (a) The Board noted the IA status report summary as at 31 December 2014.

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- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.
- (d) 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 1241 to 1261 inclusive in the seal register was hereby confirmed.

POLB 15/22

ANY OTHER BUSINESS

ACTION:
Neil Hayward/CEO

- (a) The Board asked for an update on the appointment of the Business Transformation Director, and asked the CEO to check once more that David Ryan would not consider the post.
- (b) Neil McCausland explained the process was underway to appoint a new Post Office Chairman. The OCPA (Office for the Commission of Public Appointments) had appointed Margaret Scott as the PAA (Public Appointments Assessor) to lead the process which also includes Neil McCausland as the Post Office Board SID. Russell Reynolds had been selected as the head hunters and an advert would be published in mid-February. The current plan was to interview in May/June, with the new Minister interviewing in late June and an appointment in July.

POLB 15/23

DATES OF NEXT MEETINGS

- (a) It was noted that the next Board meeting would be held on 25 March 2015, to be preceded by a NEDs' breakfast.

GRO