

Post Office Limited – Strictly Confidential

POLB 16(1st)
POLB 16/1 – 16/12

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

Minutes of a Board meeting held at 12.00 noon on 22 January 2016
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
Dave Carter	Group Financial Controller (Minute 16/7)
Martin Edwards	Head of Strategy and Corporate Planning Director (Minute 16/3, 16/4 and 16/7)
Mark Ellis	Supply Chain Director (Minute 16/3)
Martin George	Commercial Director (Minute 16/4)
Jane MacLeod	General Counsel (Minute 16/8)
Justin Zatouroff	KPMG

POLB 16/1

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and welcomed Ken McCall the new Senior Independent Director and Carla Stent the new Non- Executive Director and Chair of the ARC.

POLB 16/2

CEO REPORT AND TRANSFORMATION UPDATE

CEO Report

The CEO introduced her report and focused on the following key areas:

- (a) Period 9 sales
Excellent trading over the Christmas period had ensured a very good period 9 sales result. The network had also delivered improvements in the customer service effort measures and NPS scores both of which had been a priority.
- (b) Banking Services Framework.
The CEO thanked the Board for their support for the Banking Services Framework, which had been agreed at the Extraordinary Board meeting in December.
- (c) Flooding
144 Post Offices had been affected by the recent floods. Support from the network team and local communities had ensured that all

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but 5 had reopened. The CEO explained that she had visited some of those worst affected, and that there were some real heroes in the network.

The Chairman asked the Executive to consider how the Business could recognise and celebrate the exceptional contributions made by individuals. The CEO explained that in the past the Business had celebrated significant contributions through the Chairman's Awards and that she would consider how best to take this forward. The Board supported.

ACTION:CEO

The CEO to consider how the Business should recognise exceptional contribution by individuals.

(d) SGEI Consultation

Richard Callard explained that the SGEI consultation was part of the government funding process, and a requirement of EU State Aid clearance. The current consultation was likely to be less wide ranging than had been initially planned, as Ministers felt a number of questions were operational in nature and for POL to deal with as a business as usual matter.

The only commitment in the Government's manifesto had been to retain 3000 rural branches, although ministerial expectations are that the size of the network should remain broadly at 11500 branches. The funding discussions which would start after the summer should consider the future shape of the network.

The CEO recognised that neither the Minister nor the Secretary of State had challenged the recent Crown franchising announcement. Richard Callard stressed that the shareholder understood that the Executive were managing difficult challenges and that these were Business decisions.

(e) Interim Report & Accounts

The CEO reported that the Interim Report & Accounts had been discussed at the ARC meeting with one challenge to the narrative. The CEO promised to circulate the Interim Report along with the press release and the Qs & As to the Board before publication.

ACTION: CFO

Circulate the Interim Report along with the press release and the Qs & As to the Board before publication.

(f) Industrial Relations

The CEO reported that an IR deep dive had been organised for the Chairman and invited the other NEDs to join the meeting if they would find it helpful. A full brief would also be provided for those who could not attend in person or by phone.

ACTION: CoSec

Invitation to be extended to all the NEDs for the IR deep dive

(g) NFSP

The CEO explained the NFSP funding agreement and the Federation's move to a trade association. These changes were causing concerns within the NFSP at a time when 75% of the Federation's Executive was also changing. The CEO recognised the

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importance of a professional body to support subpostmasters and represent the network which had been the reason for the proposed trade association.

ACTION: CEO

To assist new Board members the CEO promised a paper to explain the rationale behind the NFSP funding and the move to a trade association.

- (h) Having taken all of the discussion issues into account, the Board noted the CEO's report.
- (i) The Board noted the Transformation Update.

POLB 16/3

Irrelevant

**ACTIONS:
Mark Ellis**

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POLB 16/4

Irrelevant

ACTION:
Martin George

POLB 16/5

MINUTES OF PREVIOUS BOARDS AND COMMITTEES MEETINGS AND BOARD STATUS REPORT

(a) **Minutes**

The minutes of the meeting of the Board held on 25th November 2015 were approved as accurate records and the Chairman was authorised to sign them.

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The minutes of the meeting of the Board held on 17th December 2015 were approved as accurate records and the Chairman was authorised to sign them.

The minutes of the meeting of the ARC held on the 21st September 2015 were noted by the Board.

(b) **Status Report**

POLB 15/112 (e): The Board noted the Trade Union update paper.

POLB 15/107 (d): The Board noted the Economics of the ATM Business paper.

The Status Report, showing matters outstanding from previous Board meetings, was noted.

POLB 16/6**FINANCIAL REPORT – PERIOD 9**

- (a) The CFO introduced the Financial Report for Period 9 explaining that after a good Christmas the Business was ahead of plan for the first time in 2015/16 and that he was now cautiously optimistic that the EBITDAS target would be delivered.
- (b) Having taken all of the discussion issues into account, the Board noted the Financial Report for Period 9.

POLB 16/7**INITIAL DISCUSSIONS ON THE 2016/17 BUDGET AND OUTLOOK FOR THE 3 YEAR PLAN**

- (a) The Chairman welcomed back Martin Edwards and welcomed Dave Carter, Group Financial Controller, to the meeting.
- (b) The CFO introduced the budget discussion and explained the work underway to prepare the 2016/17 budget for presentation at the March Board.
- (c) The Board asked the CFO to ensure that the budget was based on income targets which were stretching but realistic as the current targets for some products eg Mortgages had not been robust. The CFO assured the Board that realistic income targets would be proposed for all products.

ACTION: CFO**Ensure challenging and realistic income targets are set as part of the 2016/17 budget.**

- (d) The CFO explained that the first cut of the budget had highlighted a gap of £91m between the initial budget bids and the plan. The budget process had revealed the need for a radical approach to cost reduction. The CFO stressed that the Executive were committed to delivering the target £10m loss in the plan.
- (e) The Board agreed that radical solutions would now be required to reduce and right size the cost base. The Chairman stressed that much had already been delivered but that the Executive needed to

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consider extreme solutions even if the cost of delivery affected the short term profitability.

- (f) The Board recognised that Business needed to invest in growth but would be unable to do so unless the cost base was rectified. However it would be important to monitor the top line whilst tackling the costs.
- (g) Having reviewed the work to date, the Board noted the cost challenge and asked the CFO to return with the 2016/17 budget having taken regard of the Board discussion.
- (h) Richard Callard explained that the timetable would be tight for the Shareholder to agree the budget, after the March Board approval, and release the funding before the end of the financial year. The CFO assured the Board that the Business would work with the Shareholder Executive to ensure they had sight of the budget as it developed.

ACTION:
Martin Edwards/CFO

It was agreed that the Business would work with the Shareholder Executive to ensure they had sight of the budget as it developed to help facilitate the process which would follow the Board decision in March.

- (i) Dave Carter and Martin Edwards left the meeting.

POLB 16/8

TRINITY

- (a) The Chairman welcomed Jane MacLeod, General Counsel, to the meeting.
- (b) The CFO noted that the Board had previously been briefed on Project Trinity and provided an update on progress and the status of discussions with the various third parties involved.
- (c) The Board asked for a note [REDACTED]

ACTION: GC

- (d) The CFO explained that a final decision was likely to be needed in February and proposed an Extraordinary Board meeting be held at the appropriate time.
- (e) The Board noted the update and that an additional board meeting would be called in February to be held by telephone.

POLB 16/9

Irrelevant

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Irrelevant

(b) Back Office

The CFO gave a verbal update on the Front Office project. He explained that since the September Board meeting where the Board had approved the Accenture contract, changes had occurred which meant that the contract was no longer within the original approval.

- (c) The Board asked if the changes were still necessary, and the CFO explained that to do nothing was not an option, but that he would ensure that this was explained in a paper. He thanked the Board for their patience and promised to circulate a paper with an option for a call to discuss.

Provide a paper on the Back Office procurement with an option for a Board conference call if required.

**ACTION:CFO/
COSEC
POLB 16/10**

ITEMS FOR NOTING**Sealings**

- (a) 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 1366 to 1378 inclusive in the seal register was hereby confirmed.

Prosecutions Policy

- (b) The Board noted the Prosecutions Policy but challenged whether the policy should be available on the Post Office website, asking what benefit this brought to the Business.
- (c) The CEO explained that publishing the policy gave clarity to subpostmasters.

It was agreed that the GC would consider whether publication was appropriate.

ACTION: GC

- (d) Having taken all of the discussion issues into account, the Board noted the new Prosecutions Policy.

POLB 16/11

CLOSE

- (a) There being no further business, the Chairman declared the meeting close.

POLB 16/12

DATE OF THE NEXT MEETING

- (a) It was noted that the next meeting of the Board would be on 21 March 2016.

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GRO

Chairman

Date

21/03/16