

Post Office Limited – Strictly Confidential

POLB (12)10th
POLB 12/99-12/113

POST OFFICE LIMITED
(Company no. 2154540)

Minutes of a Board meeting held on 23rd October 2012
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In attendance:

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (items 12/103 & 12/104)
Charles Colquhoun	Head of Corporate Finance (item 12/110)
Susan Crichton	HR and Corporate Services Director (items 12/101 & 12/109)
Mark Davies	Communications Director (item 12/100)
Kevin Gilliland	Network and Sales Director (item 12/100)
Tim Giles	AON Hewitt (item 12/101)
Zoe Taylor	AON Hewitt (item 12/101)

POLB 12/99

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting. She would ask the Chief Executive to give an update on Project Rainbow later in the meeting.

POLB 12/100

NETWORK TRANSFORMATION

- (a) Kevin Gilliland joined the meeting to report on branch conversions under the Network Transformation Programme, a key measurement for the Post Office this year. He explained that the programme, which had always been challenging because of its voluntary nature, was now reporting as red status and thanked the Board for the opportunity to explain why this was the case and the actions he had put in place to rectify the position.
- (b) It had become clear that the Programme was no longer on track and an independent analysis had revealed the weaknesses in the programme pipeline and the need to change the nature of the contacts with the sub-postmasters to support them through the process. As the sub-postmaster engagement was vital, a decision had been taken to use the Field Change Advisors, who already support the branches, to encourage the sub-postmasters and help them through the change.

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- (c) More resource had been provided to ensure that the critical path through the process was reduced to as short a time as possible, focussing on the initial property reviews and the analysis of the branch financial statements. Kevin Gilliland assured the Board that these changes were already having a positive effect and that everything possible was being done to get the programme back on track.

He explained changes to the new Mains pay model to reward the branches for the "book" (customer accounts) they hold for telephony and financial services products as well as the initial sale, as this would promote a greater focus on customer retention and be a possible way of mitigating the loss of fixed pay, thus making the proposition more attractive.

- (d) The Chairman thanked him for his candour and re-emphasised that the Business had to hit the Transformation target for the year as it gave our stakeholders confidence that the business could deliver and provides reassurance for future funding negotiations.
- (e) Mark Davies explained the proposed communications strategy which would ensure proactive local and regional coverage for branch improvements giving more confidence to the customers and sub-postmasters and creating advocates for the programme. This included 54 national face to face sub-postmaster events planned for January.
- (f) Kevin Gilliland gave details of an incentive scheme to be introduced for the Field Change Advisors, who would receive £250 for each of the contracts which they got signed. The Board supported this incentive and asked for it to be paid immediately and not deferred until the year end or made dependent on the business target reaching its 1200 target.

ACTION:KG

- (g) Kevin Gilliland circulated a supplementary paper highlighting the key metrics for the programme. The Board discussed the 2012/13 target of 1200 and agreed that this target was for contracts signed before the end of March 2013, and that progress against this target should be added to the one page summary report going forward. However, the business should push as many of these conversions to completion as possible in this time period.

ACTION:KG

- (h) The Chairman referred to paragraph POLB 12/92(a) of the minutes of the last meeting and asked the Business to consider how it would ensure that the Shareholder recognised the definition of contracts signed as "completed", as was consistent with the past practice.

ACTION:CD

- (i) The Board asked Kevin Gilliland what he considered the biggest risks to achieving the target. He explained that the increase in property surveys and financial reviews necessary to enable the implementation in the final quarter were the first critical points, and after this it was the actual implementation through quarter 4 and the reliance on suppliers and other factors like adverse weather conditions. The Chairman suggested that the later stages in the process should be stress tested to ensure that any prospective risks were identified and mitigated.

ACTION:KG

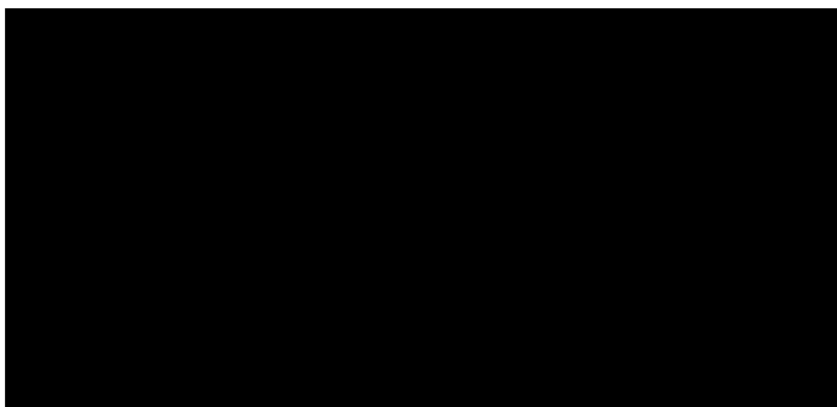
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- (j) It was agreed that the Board should be kept informed of the Programme's progress. A further update would be provided at the next meeting and a more detailed KPI report, including contracts signed, would be circulated to the Board as soon as it was available. A full report on progress with regard to the Crown offices, also a key measurement of success for Government, would be provided at the next meeting.

ACTION:KG**POLB 12/101****PENSIONS**

- (a) Project Robin implementation

Representatives from AON Hewitt joined the meeting.

**ACTION: SC****ACTION:SC/SS**

- (b) Investment risk strategy

Tim Giles (TG) presented AON Hewitt's recommendations on managing investment risk for the Post Office sections of the RMPP. The recommendations assumed that the buffer provided by Project Robin would be available to help fund contributions and that increases in pensionable pay would be controlled, as envisaged by the Robin proposals.

The Board discussed the concept of extended hedging to protect against increases in interest rates and inflation. The CEO asked for assurance that AON Hewitt's financial modelling assumptions were reasonable and they assured the Board that they were.

The Board was informed that without proposed changes to investment strategy the employer's pension contribution would need to rise from 17.1% to circa 30% (£33 million per annum) to maintain the current pension benefits.

The Board agreed the following principles:

- £150m from Project Robin to be utilised to reduce future pension contributions and provide a buffer against adverse asset and liability experience
- Post Office and employees continue at existing rates of contribution (17.1% for the employer)

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- Assets are invested 50% in index-linked gilts and 50% in growth assets.
- Extended hedging will be put in place
- Hedging will also be put in place if yields reach a lower limit
- Level of hedging to be kept under review as future plans become more certain
- The allocation of growth assets could be reduced in the event of strong performance to 'lock in' favourable returns

ACTION:
Asst. Company
Secretary

The Chairman offered Board members a one to one with AON Hewitt if they would find it helpful.

ACTION:
CD/SC/VH

The Chairman asked for a timeline for negotiations with the Pensions Trustee and a proposal on investment beliefs and asset allocation to be presented at the November Board

Virginia Holmes suggested that the investment strategy issues be taken initially by the Pension Sub-Committee and a recommendation be presented to the Board in November. It was recognised that the Committee's role was to consider investment strategy in the light of decisions about pension provision taken by management; implementation of Project Robin itself was the responsibility of the executive team, reporting to the full Board.

ACTION:VH

POLB12/102

REVIEW OF HALF YEAR TRADING STATEMENT

ACTION: ALL

- (a) The CFO presented the trading statement including the consolidated results for the half year. The Board agreed that the statement should be balanced and contextualised to show how The Post Office is progressing in a challenging market and in achieving its plans for becoming a financially sustainable business. The Chairman asked the Board to provide comments on the drafting to the CFO by 2 November.

ACTION: AM

- (b) It was agreed that the Audit, Risk and Compliance Committee (ARC) would undertake a more detailed review of the statement at its meeting on 13 November.

ACTION:
Company
Secretary

- (c) It was further resolved that, subject to approval by the ARC, authority is delegated to a Sub-Committee of any two directors, to include the CFO, to approve and sign off the final version of the half year Trading Statement for publication.

POLB12/103

FINANCE AND PERFORMANCE UPDATE

- (a) Two papers had been circulated to the Board; the Half Year Performance Report (including a review of Funding Plan obligations to March 2015) and the Quarter 2 Full Year Forecast for the financial year 2012/13.

Performance

- (b) The CFO reported a strong profit performance in the first half of the year with profit of £61.1m against a budget of £47.7m. He explained that this performance was driven by upsides on revenue, particularly Mails, and savings in operational spend, partially offset by a negative variance in

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project spend versus the original budget. Some of the areas of project underspend are of concern as they represent delays and not true cost savings. The CFO reported both the staff cost and non-staff cost efficiency targets were on track to be delivered, and the Crown P&L would reach its target loss of £40m for the year.

- (c) The biggest revenue risks in the plan were the benefits in the FOoG contracts.
- (d) Business performance against Funding commitments
The Board reviewed the new report and asked that it be amended to include the full year forecast for the next Board meeting and that, in addition to PBIT, the Network Subsidy Payment (NSP) and net deficit be shown.

ACTION: CD

- (e) Transformation Delivery
The Board appreciated the changes to the Transformation Delivery Scorecard and asked how the growing risks were being managed. Sue Barton reported that the Business Transformation Board, which consisted of Executive Committee members, was now focusing on the four or five areas of greatest risk as highlighted by the transformation scorecard.
- (f) Forecast
The Board noted the Full Year Forecast at the half year and the CFO explained the movement over the two halves of the year. He explained that the current financial year had always been envisaged to be the most onerous for investment in the Network and wider transformation, and therefore the deficit would reach its highest point of £126m. He emphasised that he felt it was important for the business to reduce the deficit from last year (of £119m) and that the Executive Committee had agreed the new full year forecast for PBIT of £90m (deficit £120m), which would come very close to achieving this aim.

POLB12/104**UPDATE ON COST MANAGEMENT REVIEW**

- (a) The Board noted the cost reduction work to date and agreed that the CFO would include a quarterly update on cost reduction as part of his report to the Board.
- (b) Sue Barton explained the four work-streams set up by the Business; Ways of Working; Organisation Model; Organisation Structure and Stakeholder Engagement.

ACTION:CD

The CEO suggested that the Business needed to produce 2-3 year rolling business plan which would be used for funding but would focus on revenue generation and cost reduction. The CFO stressed that from next year the business would generate its budgets from a zero base as there was a need to be much more radical. The Board applauded this approach as an imperative to ensure the business becomes competitive.

ACTION: SB/CD

- (c) The Board was encouraged by the paper and the debate and asked for an update at its January meeting.

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POLB 12/105

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the Board meeting and Mutualisation Committee meeting held on 19 September 2012 were approved for signature by the Chairman
- (b) The Status Report, showing matters outstanding from previous Board meetings, was noted.
- (c) The Board noted the minutes of the Pensions Committee meeting held on 11 September 2012 and the FRES/H Board meeting held on 20 September 2012.
- (d) It was reported that minutes of the Remuneration Committee meeting held on 4 October 2012 had been circulated to those members of the Board who had no personal interest in the matters discussed.

POLB 12/106

CHIEF EXECUTIVE'S REPORT

Project Rainbow

- (a) The CEO and Chairman updated the Board on the meetings and developments in Project Rainbow since the Conference call on the 19th October. The Board asked for sight of the reactive communication lines which would be used by the Business if required.

ACTION:
Mark Davies

ACTION:
Martin Moran

The Board asked the Business to check that the other businesses involved had invoked their necessary disaster plans.

The Board noted the CEO's report and discussed the following specific items:

- (b) Crown Transformation
The excellent improvements in the Birmingham Branch were recognised, and the Business was encouraged to replicate this approach elsewhere. The CEO explained the need for a further trial for the Systems Thinking as although the Camden trial had been successful in parts changes during the pilot had made the overall result inconclusive.
- (c) HR Director
The Board asked if the loss of the HR Director had compromised the Business in any way. The CEO assured the Board that it had not although there were areas where difficult conversation with the unions had not taken place.
- (d) Stakeholder Forum
The CEO reported on a very positive meeting with good challenge and debate. Further meetings were planned for November and December with a report back expected to the Board in March.
- (e) DVLA Pricing
The DVLA contract decision should soon be made public. The pricing in the Post Office bid had been challenging and the CEO explained that

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the reduced price was only possible because of a proposed reduction in pay to be passed on to the sub-postmasters. Although the price has been significantly reduced from that in the current contract the Business recognised that it needed to price competitively. The CEO thanked the Non-Executives involved for their support in the pricing debate.

- (f) The Health and Safety Report appended to the CEO's Report was noted.

POLB 12/107

COMMUNICATION AND STAKEHOLDER PLAN

The Communications and Stakeholder plan was noted. The CEO reported that tracking information for the TV advertisement should be available in mid-November

POLB12/108

BANKING AND TREASURY AUTHORITIES

- (a) The Board noted the paper on banking and treasury authorities and after discussion delegated the authority to approve the arrangements to the ARC.
- (b) The ARC was asked to:
- (i) agree the arrangements for control of treasury operations and investment with banks and financial institutions;
 - (ii) agree the limits of authority designated to specified positions of responsibility within the Company and the types and maximum amount of obligations which can be approved by individuals; and
 - (iii) agree arrangements for reporting on banking and treasury activities.

ACTION:AM/CD

- (c) The Board requested that the paper approving the uncommitted loan facility be considered at the ARC and delegated authority to the ARC to confirm the approvals.

ACTION : AM/CD

POLB 12/109

APPROVAL OF POLICIES

- (a) The Freedom of Information Policy and Publication Scheme and the Anti-Money Laundering Policy circulated before the meeting were approved.
- (b) It was resolved that the Freedom of Information Policy and Publication Scheme (version dated September 2012) and the Anti-Money Laundering Policy (version dated 5 October 2012) are adopted by the Board as formal policies to be disseminated within the business and provided to external regulators and agencies on request.

ACTION:
Company
Secretary

POLB 12/110

PROPOSALS FOR INCORPORATION OF COMPANIES

The papers proposing incorporation of a dormant subsidiary and a captive insurance "cell" were discussed.

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- (a) The Board resolved that:
- (i) a new company should be incorporated under the name "Post Office Group Services Limited" as a dormant subsidiary, to enable Post Office to produce consolidated accounts;
 - (ii) any proposal for the above company to begin trading will require separate Board approval;
 - (iii) Post Office Limited will agree to subscribe initial share capital, up to a maximum of £100;
 - (iv) Chris Day and Susan Crichton will act as directors of the subsidiary, with Alwen Lyons as Company Secretary.
- (b) The Board declined the proposal to establish a captive insurance "cell".

**ACTION: CD /
SC/ Company
Secretary**

POLB12/111

ANY OTHER BUSINESS

- (a) The Chairman asked all directors to check the Board and Committee dates for 2013 and advise the Company Secretary by November 2nd if there were any problems. Meeting dates for October 2013 would depend on confirmation of half term dates.
- (b) The Chairman circulated the proposed agenda for the Strategy session on the 20th November and asked for any feedback to be provided to the Company Secretary.

ACTION: ALL

ACTION : ALL

POLB 12/112

ITEMS FOR NOTING

- (a) The Significant Litigation report was noted
- (b) 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 818 to 822 inclusive in the seal register is hereby confirmed.
- (c) The minutes of the August meeting of the Communications Action Group were received

POLB12/113

CLOSE

There being no further business, the meeting was then closed.

Alice Perkins