

Post Office Limited – Strictly Confidential

POLB(12)1st
POLB12/01-17

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 12th January 2012

Present:

Alice Perkins	Chairman, Post Office Ltd
Neil McCausland	Senior Independent Director, Post Office Ltd
Les Owen	Non Executive Director, Post Office Ltd (items POLB12/01-12)
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
Susannah Storey	BIS (Item No. POLB12/01a)
Matthew Starks	Acting HR Director (Item No. POLB12/01 and POLB12/07)
Susan Crichton	Legal & Compliance Director (Items No. POLB12/06 -14)
Nick Kennett	Director, Financial Services (Item No. POLB12/09)
Martin Moran	Commercial Director (Item No. POLB12/10)
Mike Young	Chief Operating Officer (Item No. POLB12/13)

POLB12/01

POL REMUNERATION

(a) Feedback from ShEx (Susannah Storey)

The Chairman welcomed Susannah Storey to the meeting and explained that she had invited Susannah Storey to put the process for approval of Post Office Board remuneration into context from a Shareholder perspective.

Susannah Storey explained that after separation the controls currently existing in the RMH articles would be incorporated into POL articles and this would mean that matters relating to Board remuneration (base salary and incentives) would need the Shareholder's consent. She stressed that the authorisation process can take some time and emphasised the need to ensure any proposal put by Remco to the Government was properly justified and benchmarked to enable decisions to be taken. The personal objectives on which any bonuses were predicated needed to be justifiable and not seen as "just doing the job".

Susannah Storey explained that recent history shows significant over achievement against stretch targets and this has inevitably called into doubt whether the targets were challenging enough.

Les Owen highlighted that both Royal Mail Group and Post Office Ltd dealt with small profit targets but calculated from significant revenue and cost figures, and that this could lead to large variances. He suggested the Business needed to find a measure which was more aligned to share price for its long term incentive.

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The Chairman stressed the need to get proposals into the Government early and ensure that individuals were genuinely incentivised but not over rewarded.

Susannah Storey emphasised that only the remuneration of the Board needed to go to ShEx, but that included any salary changes and any short or long term incentive proposals.

Matthew Starks asked what is the Shareholder view of paying a bonus for performance below the target. Susannah Storey explained that there was no set view and that the Business needed to argue its case but that Ministers had very publicly stated that they would not reward failure, so any proposal needed to bear this in mind.

Susannah Storey left the meeting.

(b) LTIP

The Chairman asked Les Owen for his input on the LTIP paper POLB(12)01 as he had experience of the RMG scheme. Les Owen reported that from his private sector experience he was used to seeing the bonus expressed on an annual basis but that the three year amounts appeared to be appropriate and reasonable. He emphasised the need to find a less volatile metric for the financial target.

Chris Day explained that the Business had only just hit the last LTIP targets and that the next three years profit targets were very stretching. Les Owen explained that he was not suggesting the Business always over achieves its profit target but that the number was volatile and susceptible to large negative and positive variances.

The Chairman emphasised the need for very different measures for the short term and long term targets. Neil McCausland suggested that the LTIP should target the Business outputs and focus on being financially sustainable. Paula Vennells explained why the Network Conversions were important in changing the Business cost base and therefore should be a gateway to any LTIP bonus payment. The Board agreed that the Network Conversion gateway target should be set at 5400 (90%) which aligned to the MDA agreement.

The Chairman asked the Board if they believed bonuses should be paid for delivering below 100 of the profit target. Les Owen accepted the perception of rewarding failure but highlighted the danger of 'cliff vesting' as this could drive the wrong behaviours in the Business. He suggested a gradation around the target point with significant increase for achieving the target. Neil McCausland agreed.

Les Owen pointed out that it would be important for the Remco to have some discretion in relation to the LTIP because it is impossible to be certain in advance that all relevant matters have been anticipated when agreeing the scheme.

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The Chairman asked if the forthcoming TUPE of staff from RMG to POL would effect the remuneration proposal. Matthew Starks explained that any changes to peoples' terms and conditions needed to be deemed of a reasonable nature and had to pass the "substantially equivalent" test, and that the longer the time between the TUPE and the change the better. The Business would test any proposal with the TUPE lawyers. Paula Vennells hoped we could design something which would be acceptable for the long term rather than have to make further changes in the short term.

Paula Vennells and Chris Day left the meeting whilst their remuneration was discussed. Discussions were not minuted.

Paula Vennells and Chris Day rejoined the meeting.

The Chairman asked that a proposal be brought back to the Board based on the discussions to date (including higher ranges for CEO and CFO) with a gateway for Network Conversions; a small reward for achieving 90% of the financial target; but with the main bonus at 100% and significant rewards for hitting stretch targets. It was agreed that the work needed to be completed as quickly as possible to enable a proposal to the Shareholder before the end of the financial year.

ACTION:
Matthew Starks

(c) Remuneration Structure

The Board discussed the STIP (short term incentive scheme) structure. Paula Vennells clarified that the PDR score related to the annual performance review against personal objectives and that approximately 15% of employees were graded as 1 or 2. Neil McCausland asked to see the distribution of scores for the last 2 years, which would be circulated to the Board.

ACTION:
Matthew Starks

Neil McCausland emphasised the need to focus on financial measures and those drivers which effect financial performance. Les Owen proposed a structure where greater bonus was attributed to profit or sales, but where other targets such as Health and Safety had to be passed or the bonus achieved would be reduced.

The Chairman asked that customer measures play a significant part in any calculation but stressed the need for measurable targets.

Neil McCausland added that moving the Business towards performance related pay as well as bonus would be beneficial.

(d) Managers Pay 2011-12

Matthew Starks updated the Board on the CMA pay negotiations. Crown Managers have been offered 1.4% to mirror the CWU grade award, and admin managers have been offered 1.6% plus £400 cash payment to be paid against specific objectives. This award is greater than that offered by RMG but has been cleared with RM CEO. Discussions are continuing with the CMA and Matthew Starks will update the Board if there are any significant changes or the pay deal is agreed.

ACTION:
Matthew Starks

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Neil McCausland asked if this gave the Business a gap in its plan over the next 3 years. Chris Day confirmed this and that the increase would need to be included in the commercials and assumptions in the Crown Plan.

POLB12/02

MINUTES OF PREVIOUS MEETINGS

- (a) The minutes of the meeting of 13th December 2011 were agreed;
- (b) the minutes of the POFS Board (POFS(11)5th) were noted;

ACTION:
Chris Day

Les Owen asked what issues were driving the red status of the MI migration programme and whether it should be of concern to the Board. Chris Day agreed to investigate and send a note out as soon as possible.

- (c) The minutes of the FRES Board (FRES(11)4th) were noted.

POLB12/03

MATTERS ARISING – Status Report

ACTION:
Alwen Lyons

- (a) No.11b (POLB11/60(e)): The Chairman commented that the UKBA action was intended to refer to the external (rather than the internal) communications plan. Paula Vennells agreed and ensured the Board that the FOOG update at the next Board meeting would include FOOG external communication plan.
- (b) No.4c (POLB11/71(h)): Paula Vennells reported that Lord Freud had postponed this meeting. This will now be picked up within the Front Office of Government work as a meeting on this has already been scheduled for April

POLB12/03

MANAGING DIRECTOR'S REPORT

ACTION:
Chris Day /
Kevin Gilliland

- (a) Network Transformation
Neil McCausland congratulated Paula Vennells on the response to the survey and asked how the Business intended to prioritise the offices as the models had very different commercial implications. Paula Vennells assured the Board that this would be included in the next Board update due in March.

The Chairman stressed how vital this work was to the Business and asked for it to come to the Board earlier if it was available.

ACTION:
Alwen Lyons

Paula Vennells reported that the RMG and POL Communication Directors were working closely to plan effective communications for Network Transformation. In future, the joint Communications Action Group minutes, including the details of the Network Transformation Programme, would come to the Board for noting.

- (b) Front Office of Government
The Chairman stressed the importance of focussing the Business' best people on the DVLA tender. Paula Vennells agreed and stressed that the Business was using the lessons learnt from the UKBA bid.

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ACTION:
Martin Moran

A full update and detailed project plan, including competitor analysis, will form part of the Front Office of Government update at the next Board.

ACTION:
Mike Young

- (c) IT Landscape
The Chairman emphasised the need for the IT Board paper to be clear with practical language and to highlight what the IT changes will mean to the Business on the ground. Paula Vennells suggested that the Board might benefit from an IT deep dive.

ACTION:
Mike Young

IRRELEVANT

- (e) Consumer Focus
Paula Vennells reported that she had met with Mike O'Connor from Consumer Focus before Christmas, and although this was before the unhelpful report in the Daily Mail, she was assured that such reports were less likely to happen in the future.

IRRELEVANT

ACTION:
Nick Kennett

Nick Kennett to provide a noting paper for the February Board to cover communications to customers.

ACTION:
Paula Vennells / Alwen Lyons

- (g) **Irrelevant**

POLB12/04

HEALTH AND SAFETY UPDATE

- (a) The Health & Safety Update (POLB12/05) was noted.

POLB12/05

- (a)
- (b)
- (c) **Irrelevant**

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Irrelevant

ACTION:
Chris Day

POLB12/06

POL GOVERNANCE

- (a) The Governance paper was presented as a basis for an opening discussion on this issue; it had not been discussed in advance with the Chairman who would work with Susan Crichton on it after the Board

Neil McCausland asked for clarification of delegated authorities from ShEx alongside the decisions ShEx retained.

ACTION:
Chris Day

Les Owen stressed the need to include 'Going Concern' discussions as part of the Board's governance. Chris Day agreed to discuss with Matthew Lester (RMG CFO) and introduce the necessary reporting process at the Board.

The Chairman explained that she would like to understand the rationale for proposed delegated authorities and their implications.

Les Owen questioned whether POL would need a Board Pensions Sub-committee, but Paula Vennells asked to keep this in the short-term as the sectionalisation, investment and funding strategies would all need detailed work.

It was suggested that the Health & Safety Sub-committee could be an Executive Sub-committee and the Board would be updated through the Managing Director's Report.

ACTION:
Susan Crichton

Susan Crichton suggested that the Audit Sub-committee should expand to include risk and compliance as this would give Board rigour and sub-committee oversight to the reporting of compliance by management.

Susan Crichton to bring a proposal back to the Board after the discussion with the Chairman.

POLB12/07

**SIGNIFICANT LITIGATION REPORT
- Noting Paper (POLB(12)13)**

- (a) Les Owen asked for assurance that there was no substance to the claims brought by subpostmasters which had featured in Private Eye.

Susan Crichton explained that the subpostmasters were challenging the integrity of the Horizon system. However the system had been audited by RMG Internal Audit with the reports reviewed by Deloitte. The audit report was very positive.

The Business has also won every criminal prosecution in which it has used evidence based on the Horizon system's integrity.

ACTION:
Susan Crichton

Susan Crichton suggested that she clear the audit report with the external lawyers and if it is possible to give the report privileged status it would be circulate it to the Board.

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POLB12/08

- (a)
- (b)
- (c)
- (d)
- (e)

Irrelevant

POLB12/09

EAGLE UPDATE

- (a) Heads of Terms
Nick Kennett reported that the Heads of Terms has been signed on 29th December 2011 and the hope was to have the contract in place by the end of March.
- (b) Insurance
The issue of where insurance would sit in the Business is yet to be resolved. Bol have proposed that this part of the current joint venture be retained within Midasgrange (which will be wholly owned by Bol), but with a new Board.

Nick Kennett explained why he thought this structure was too bureaucratic and suggested an alternative.

**ACTION:
Nick Kennett**

The Chairman asked that Nick Kennett provide a paper to the Board setting out his alternative proposal with the negotiations mandate he requires.

Les Owen agreed and stressed the importance that any new structure enables POL to have control over products, incentives and sales campaigns.

Neil McCausland emphasised the need to manage the short term Junction contract effectively to ensure no penalty was paid. Nick Kennett reported that Junction were supportive of including the 30k Van Insurances currently with AVIVA in the portfolio until Sept 2012.

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Les Owen asked if Nick Kennett had confidence in the Manager running the Insurance Business. Nick Kennett reported that the last two weeks had seen the portfolio grow for the first time in three years and that he had every confidence in the way the contract was now being managed. The Chairman asked for a paper to be brought to the Board covering the Business and the proposals for the last two years of the Junction contract.

ACTION:
Nick Kennett

(c)

IRRELEVANT

ACTION:
Nick Kennett

POLB12/10

PREFERRED SUPPLIER – OUTPUT FROM TELEPHONY TENDER

- (a) Martin Moran explained that the Telephony Tender process was now complete, and that the preferred bidder was Fujitsu.

Neil McCausland questioned the reliance on Fujitsu. Martin Moran explained that we were their third biggest customer worth circa 5% of their turnover. But the new contract provided only a small return for Fujitsu with the bulk of the contract passed through to Talk Talk.

The Chairman asked if there was any scope to reduce the price of the contract further. Martin Moran explained that it had already been reduced three times so he would not want to reopen the price, but that he had negotiated IP rights for Horizon and a £2m reduction in Horizon change request charges for 2012/13, as well as step in rights to work direct with Talk Talk etc if Fujitsu failed.

The Board endorsed the recommendation and congratulated Martin Moran on the deal.

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POLB12/11

BRIBERY ACT

Neil McCausland asked for assurance that the Business is complying with the Bribery Act required disclosures.

Susan Crichton explained that POL had the same policy in place as RMG and colleagues were trained when the Act came into force. The register of Gifts is held in Compliance and shows no significant disclosures. Susan Crichton undertook to revisit the requirements at an Executive Team meeting.

ACTION:
Susan Crichton

POLB12/12

POL STATE AID APPLICATION

Susan Crichton reported that BIS will be submitting a notification to the EU Commission for POL SGEI State Aid at the end of January. The process had been underway since May, but because of a change in the SGEI framework BIS had decided to hold back the notification.

ACTION:
Susan Crichton /
Paula Vennells

The Chairman asked Paula Vennells to draw the Board's attention to any concerns and notify them when the notification was submitted and agreed.

Les Owen left the meeting.

POLB12/13

MDA/MSA

- (a) Minutes shown at Appendix A because of Conflicts.

POLB12/14

British Postal Museum & Archive (BPMA)

- (a) Minutes shown at Appendix B because of Conflicts.

POLB12/15

ANY OTHER BUSINESS

ACTION:
Alwen Lyons

The Chairman informed the Board of several non-executive director candidates, a possible Chair of Audit and that Susannah Storey had agreed to join the Board as a NED. Alwen Lyons to organise her induction.

POLB12/16

- **NOTING PAPERS**
- (a) • Telecoms Tender – POL Sourcing Council and Group Investment Committee Business case (POLB(12)11) was noted.
- (b) • noted.
- (c) • Insurance Risks (POLB(12)12) was noted.
- (d) • Insurance Risks (POLB(12)12) was noted.
- (e) • Pin Pads – Lessons Leant (POLB(12)14) was noted.
- Post Office Sealings (POLB(12)15) was noted.
- Intelligent Pricing (POLB(12)16) was noted.

POLB12/17

CLOSE

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

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Appendix A to Minutes POLB(12)1st

POLB12/13

(a)

(b)

(c)

ACTION:
Mike Young /
Susan Crichton

(d)

(e)

(f)

ACTION:
Susan Crichton

Irrelevant

ACTION:
Susan Crichton

(g)

(h)

(i)

ACTION:
Susan Crichton

(j)

ACTION:
All

(k)

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Appendix B to POLB(12)1st

POLB12/14

British Postal Museum & Archive (BPMA)

(a)

(b)

(c)

(d)

Irrelevant

ACTION:
Paula Vennells

GRO