

Post Office Limited – Strictly Confidential

**POLB 14(4<sup>th</sup>)**  
**POLB 14/48-14/63**

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

Minutes of a Board meeting held on 30 April 2014  
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 (minutes 14/49-14/51)
Alasdair Marnoch	Non-Executive Director
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

**In Attendance:**

Alwen Lyons	Company Secretary
Nick Kennett	Director, Financial Services (minutes 14/48-49, 14/51 and 14/53)
Chris Aujard	General Counsel (minutes 14/48-49 and 14/55)
Paul Havenhand	Head of Travel and Insurance (minute 14/48-49)
Mark Davies	Communications and Corporate Affairs Director (minutes 14/50 and 14/52)
Martin George	Chief Marketing and Commercial Officer (minutes 14/53-54)
Kevin Gilliland	Network & Sales Director (minutes 14/53-54)
Lesley Sewell	Chief Information Officer (minute 14/55)
Gareth James	Partner, Deloitte LLP (minute 14/55)

**POLB 14/48**

**INTRODUCTION**

- (a) A quorum being present, the Chairman opened the meeting and welcomed Nick Kennett, Director, Financial Services, Chris Aujard, General Counsel, and Paul Havenhand, Head of Travel and Insurance.

**POLB 14/49**

(a)

(b)

**Irrelevant**

**ACTION: Nick Kennett**

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**ACTION: Chris  
Aujard**

(c)

**ACTION:  
Company  
Secretary**

(d)

(e)

**Irrelevant**

**ACTION:  
Nick Kennett/  
Chris Aujard/  
Chris Day**

(f)

**ACTION:  
Chris Aujard**

(g)

(h)

**POLB 14/50**

(a)

(b)

(c)

**Irrelevant**

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**ACTION:**  
Richard Callard

POLB 14/51

**ACTION: CFO**

POLB 14/52

(d)

(e)

(f)

(g)

(a)

(b)

# Irrelevant

(c)

(d)

(e)

(f)

(g)

## **PUBLICATION OF ANNUAL REPORT AND FINANCIAL STATEMENTS**

- (a) Mark Davies re-joined the meeting.
- (b) The Board considered the plans for publication of the Post Office's Annual Report and Financial Statements for the financial year 2013-2014. A detailed review would be carried out at the May ARC.

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**ACTION: Mark  
Davies/Chairman/  
CEO**

- (c) The Board discussed the themes to be included in the Chairman's foreword and CEO's review and the desire to ensure that the whole report is fair, balanced and understandable, in line with best practice in corporate governance. Mark Davies would draft and agree these before the ARC meeting.

**ACTION: CFO**

- (d) The CFO agreed to circulate a more detailed timetable to the Board.
- (e) Mark Davies left the meeting.

**POLB 14/53**

(a)

(b)

(c)

(d)

**ACTION: CFO**

(e)

**ACTION:  
Martin George**

(f)

(g)

**ACTION:  
Martin George**

(h)

**Irrelevant**

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**Irrelevant**

(i)

**Irrelevant**

(j) Nick Kennett left the meeting.

**POLB 14/54**

**NETWORK AND SALES**

(a) The Board received an update on the progress of Network Transformation, discussions with the NFSP and Crown Transformation, together with an update on Project Ivy.

(b) **NETWORK TRANSFORMATION**

The Board discussed the costs of onsite and offsite conversions and the impact on sales. Kevin Gilliland explained that because of the change of premises, offsite conversions were understandably taking longer to recover lost sales as a result of the change than onsite conversions. The Business was trialling different initiatives to support the new branches and he was very hopeful that this would improve the sales. However, even with the initial loss of sales these branches increased the profitability for the Post Office because of the savings in fixed costs. The big opportunity for these branches was their availability outside core Post Office hours and the Business needed to promote that more effectively, as well as provide the right products such as collections and returns.

**ACTION: Kevin Gilliland**

(c) The Board asked for a further update on the economics of transformed branches (onsite versus offsite) as part of the quarterly Network update.

(d) Kevin Gilliland explained that, despite the success of hitting both the number of contracts signed and branches open targets for 2013/14, there was still considerable risk in this year's target as the majority of both contract signatures and openings would be Locals, particularly onsite independent Locals, where this approach was largely untested and could potentially take longer to deliver. He reported that he was also working with the NFSP on a trial of 'guided leavers' using a representative sample of 50 subpostmasters to show how we will manage compulsory exits.

(e) **CROWNS**

Kevin Gilliland explained that the Business was now very clear about the run rate required at March 2015 to deliver the target of a breakeven Crown network. He stressed that the main risk to delivery was the income line in the P&L, which required a 7% increase year on year.

**ACTION: CFO**

(f) The Board recognised the ambition in the plans and asked the Business to work on a contingency to cover the risk of not achieving the income target. The CFO explained that work was already

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underway and a plan would be in place by the end of the first quarter. The Board asked for sight of the work to date at the May meeting

- (g) Chris Day reported that this methodology for calculating the exit run rate for Crowns and therefore the breakeven point had been agreed with BIS.
- (h) PROJECT IVY  
The Board noted the updates and the next steps for Project Ivy.
- (i) Martin George and Kevin Gilliland left the meeting.

POLB 14/55

**HORIZON – DELOITTE REPORT**

- (a) The Board welcomed Lesley Sewell, Chief Information Officer, and Gareth James, Partner, Deloitte, to the meeting. Chris Aujard also re-joined the meeting.
- (b) The Chairman thanked Gareth James for his draft report and explained that there were a number of people who were sceptical about Horizon. The Board were concerned to know the truth about the reliability of the system. Deloitte's views would need to be expressed in such a way that they would persuade reasonable lay people.
- (c) Lesley Sewell explained that the first piece of work Deloitte had been asked to undertake was to give assurance that the control framework, including the security and processes for changes in the system, were robust from an IT perspective.
- (d) Gareth James reported that all the work to date showed that the system had strong areas of control and that its testing and implementation were in line with best practice. Work was still needed to assure the controls and access at the Finance Service Centre.
- (e) Chris Aujard explained that several of the subpostmasters who were challenging Horizon had made allegations about 'phantom' transactions which were non-traceable. Assurance from Deloitte about the integrity of the system records logs would be very valuable.
- (f) The Board asked what assurance could be given pre 2010 when the different Horizon system was in use. It was agreed that Gareth James would produce and cost a proposal for additional work to enable assurance for the wider system, including pre 2010.
- (g) Lesley Sewell, Gareth James and Chris Aujard left the meeting.

**ACTION:**  
Lesley Sewell/  
Chris Aujard

POLB 14/56

**CHIEF EXECUTIVE'S REPORT**

- (a) The Board noted the Chief Executive's report.
- (b) The CEO reported that an employee engagement score of 57% had been achieved for the full year, which meant that the Business had achieved its stretch target.

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**POLB 14/57**

**FINANCIAL PERFORMANCE UPDATE**

- (a) The Board received a financial performance update for March 2014.

**POLB 14/58**

**MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**

- (a) The minutes of the Board meeting held on 26 March 2014 were approved for signature by the Chairman.
- (b) There were no matters arising

**POLB 14/59**

**COMMITTEE MEETING MINUTES FOR NOTING**

- (a) The Board noted the minutes of:
- the Audit, Risk and Compliance Committee meeting held on 6 March 2014;
  - the Nominations Committee meeting held on 11 February 2014;
  - the Pensions Committee meeting held on 5 March 2014; and
  - the Remuneration Committee meeting held on 11 March 2014.

**POLB 14/60**

**STATUS REPORT**

- (a) The Status Report, showing matters outstanding from previous Board meetings, including an update on the Wave programme, was noted.
- (b) It was noted that the Sparrow Lessons Learned review would be discussed in more detail at the May ARC.

**POLB 14/61**

**ITEMS FOR NOTING**

**ACTION: CFO**

- (a) The Board noted the Separation update.
- (b) The Board noted the Head Office relocation update. The Board asked the Business to ensure it had negotiated the best rent available including asking the landlord for rent free periods to vacant the old building or for taking on the new lease. It was also suggested that the Business should check the broadband capability of the new building.
- (c) The Board noted the Significant Litigation report.
- (d) The Board noted the Health & Safety report.
- (e) The Board noted the update on Cyber Security and Information Assurance.
- (f) 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 1141 to 1159 inclusive in the seal register was hereby confirmed.

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**POLB 14/62**

**ANY OTHER BUSINESS**

- (a) There being no other business the meeting was closed

**POLB 14/63**

**DATE OF NEXT MEETING**

- (a) It was noted that the next Board meeting would be held on 21 May 2014.

**GRO**



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**POST OFFICE LIMITED 30 APRIL 2014 BOARD ACTION LOG**

<b>REFERENCE</b>	<b>ACTION</b>	<b>BY WHOM</b>
	<b>Strategy</b>	
April 2014 POLB 14/49(b)	Provide more detail of the financial impacts of the proposed model for Project Titan.	<b>Nick Kennett</b>
April 2014 POLB 14/49(c)	Explain the extent to which the MGA would in reality be free from restrictions imposed on government entities, including procurement law.	<b>Chris Aujard</b>
April 2014 POLB 14/49(d)	Miller report to be made available to the full Board	<b>Company Secretary</b>
April 2014 POLB 14/49(e)	Provide a paper for the next Board meeting covering: <ul style="list-style-type: none"> <li>• the governance structure of the MGA. How the relationship, controls and oversights between the MGA Board and the Post Office Board would operate and link through to the Shareholder Executive;</li> <li>• the implications for the Business of operating the MGA including the change in the risk profile;</li> <li>• an analysis of the financial impacts of the new operating model, including improved margins and higher costs and how these relate to the additional risk, bearing in mind all the other changes that the Business was committed to implementing; and</li> <li>• an analysis of the Business' current regulatory obligations compared to a position of becoming directly regulated.</li> </ul>	<b>Nick Kennett/Chris Aujard/Chris Day</b>
April 2014 POLB 14/49(f)	Provide independent advice on the efficacy of the governance proposals, and to invite the advisors to the next Board.	<b>Chris Aujard</b>
April 2014 POLB 14/53(e)	Provide a product profitability analysis for the next meeting.	<b>CFO</b>
April 2014 POLB 14/53(f)	Lead a deep dive into mails at the May Board	<b>Martin George</b>
April 2014 POLB 14/53(h)	Provide clarity on the reasons for the increase in the cost of sale versus the budget in the new telephony contract and the reason why the Business has not been able to pass this on to the	<b>Martin George</b>

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	supplier.	
	<b>Finance</b>	
April 2014 POLB 14/52(c)	Draft and agree the themes to be included in the Chairman's foreword and CEO's review and the desire to ensure that the whole report is fair, balanced and understandable, in line with best practice in corporate governance before the ARC meeting.	<b>Mark Davies/Chairman/CEO</b>
April 2014 POLB 14/52(d)	Circulate a more detailed timetable to the Board.	<b>CFO</b>
	<b>Network</b>	
April 2014 POLB 14/54(c)	Provide a further update on the economics of transformed branches (onsite versus offsite) as part of the quarterly Network update.	<b>Kevin Gilliland</b>
April 2014 POLB 14/54(f)	Work to date on a contingency to cover the risk of not achieving the income target for the Crown P&L to go to the May Board meeting.	<b>CFO</b>
	<b>Project Sparrow</b>	
April 2014 POLB 14/55(f)	Gareth James to produce and cost a proposal for additional work to enable assurance for the wider system, including pre 2010.	<b>Lesley Sewell/Chris Aujard</b>
	<b>Miscellaneous</b>	
April 2014 POLB 14/50(f)	Feed back to BIS the Board's view that the emphasis in any statement be on the Community Funds and Public Purpose Statement, as these were the current issues.	<b>Richard Callard</b>
April 2014 POLB 14/51(e)	CFO to share the outcome of the Thomson Reuters report (on the current position and a proposed approach to the Business' relationship with the Co-operative Group) and the actions he decides to take with Alasdair Marnoch, Chairman of the Audit Committee and the General Counsel.	<b>CFO</b>
April 2014	The Business to ensure it had negotiated the best rent available for the head office relocation,	<b>CFO</b>

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POLB 14/61(b)	including asking the landlord for rent free periods to vacant the old building or for taking on the new lease and the Business should check the broadband capability of the new building.	
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