

Post Office Limited – Strictly Confidential

POLB 14(3rd)
POLB 14/31-14/48

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

Minutes of a Board meeting held on 26 March 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
Alasdair Marnoch	Non-Executive Director
Paula Vennells	Chief Executive (except minute 14/35)
Chris Day	Chief Financial Officer (except minute 14/35)
Susannah Storey	Non-Executive Director (minutes 14/31-14/38)

In Attendance:

Alwen Lyons	Company Secretary
Richard Callard	Non-Executive Director designate, Shareholder Executive
Chris Aujard	General Counsel (minute 14/32)
Angela Van Den Bogerd	Network Change Operations Manager (minute 14/32)
Christa Band	Linklaters LLP (minute 13/32)
Lesley Sewell	Chief Information Officer (minute 14/33)
Neil Hayward	Group People Director (minutes 14/33 and 14/36)
Kevin Gilliland	Network & Sales Director (minute 14/36)
Tom Moran	Head of Industrial Relations and Network Strategy (14/36)
Martin George	Chief Marketing and Commercial Officer (minute 14/44)
Jeremy Woodrow	Head of Telecoms Acquisition and Strategy (minute 14/44)
Vicky Hampshire	Mobile Product Manager (minute 14/44)

POLB 14/31

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting.
- (b) The Chairman reminded the Board that this was to be Susannah Storey's last meeting as a Non-Executive Director and thanked Susannah for her contribution to the Board.

POLB 14/32

PROJECT SPARROW

- (a) The CEO reminded the Board of the background to Sparrow and the Initial Complaint Review and Mediation Scheme ('the Scheme'), and introduced the work which Linklaters had been asked to undertake to clarify the Company's legal position.
- (b) Chris Aujard, General Counsel, Angela Van Den Bogerd, Network Change Operations Manager, and Christa Band from Linklaters LLP

Post Office Limited – Strictly Confidential

joined the meeting.

- (c) Christa Band presented the legal advice to the Board, which dealt with the Company's contractual relationship with sub-postmasters and the Company's right under the contract to recover losses. She emphasised that the advice focussed on the legal issues, not questions of fact or individual cases. Christa Band questioned the approach taken by Second Sight with respect to the work produced by them to date. In particular she would have expected them to:
- (i) produce a review of the system as a 'baseline' before considering any specific complaints; and
 - (ii) cite hard evidence to back up any conclusions made.
- (d) The Board discussed the Scheme and possible compensation payments. Christa Band explained that, because of the terms of the contract between sub-postmasters and the Post Office, the Company would not be required to pay compensation and that if compensation were given this would not give sub-postmasters outside the scheme any legal right to demand such compensation although it may lead to claims of 'unfairness'.
- (e) Christa Band explained that English Law did not allow for compensation for distress as claimed by many of the cases in the Scheme.
- (f) The Board thanked Christa for her report covering the legal aspects of the claims against the Business. Christa Band left the meeting.
- (g) The Board agreed to set up a Sparrow Board Sub Committee which the Chairman would Chair and would involve the CEO, Alasdair Marnoch (Chairman of the Audit Committee) and Richard Callard. Other NEDs were invited if they wished to join.
- (h) The CEO reported on other work underway. She noted that the quality of the work undertaken by Second Sight had been challenged by Sir Anthony Hooper, Chairman of the Working Group, who was now insisting on more evidence based reports.
- (i) The CEO had met the CEO of the Financial Ombudsman Service to understand the principles they would recognise as good practice for goodwill payments.
- (j) The CEO, General Counsel and Angela Van den Bogerd had also attended an MPs meeting, called by James Arbuthnot, at which a couple of the MPs with cases in the Scheme were pushing for compensation for their constituents.
- (k) The Board agreed that they needed to commission a piece of work, to complement that undertaken by Linklaters, to give them and those concerned outside the Business, comfort about the Horizon system. The Business was asked to revert with the terms of reference and timescale for the work which should cover:
- The work undertaken by Angela Van Den Bogerd explaining

ACTION:
Company
Secretary

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how the system works

- A review of the data integrity aspects of the system
- A reference to all audits and tests carried out on the system
- A response to the most significant thematic issues raised by Second Sight.

ACTION:
Chris Aujard

(l) These terms of reference should be tested with Linklaters to ensure that this work would satisfy them as evidence that Horizon is reliable and then agreed by the Board Sparrow Sub Committee.

(m) The Board noted the update on the Scheme.

ACTION:
Chris Aujard

(n) After due consideration, and in the interest of regularising Second Sight's engagement, the Board authorised the execution of the draft engagement letter. Chris Aujard was asked to try to extend the time period restricting Second Sight from acting against the Company beyond a 12 months period.

ACTION:
Belinda Crowe

(o) The Board requested a one page lessons learned covering 3 or 4 areas by the next Board meeting.

(p) Chris Aujard and Angela Van Den Bogerd left the meeting.

POLB 14/33

BUSINESS TRANSFORMATION PROGRAMME

ACTION:
Chris Day

(a) Tim Franklin declared an interest in two of the Companies who may be involved in this work. It was noted that he is a strategy advisor for Firstsource, and a member of the advisory board at L&T Infotech, both interests had been previously logged with the Company Secretary.

(b) The Board welcomed Neil Hayward, Group People Director, and Lesley Sewell, Chief Information Officer, to the meeting and received an update on the Business Transformation Programme.

(c) The CFO explained the changes since the last Board meeting and the decision to spend more time on the design phase of the plan. He acknowledged that the effect of this delay would be to produce a gap in the strategic plan in 2014/15 of circa £10-15million which the Business would need to find more radical options to cover. Supply Chain was one of the areas being considered, which would be presented at the May Board.

ACTION:
Chris Day

(d) The Board asked the CFO to model the scenario where revenue remained flat next year, to show the cost savings which would be required to hit the strategic plan profit target.

(e) The CEO explained the recruitment process for an interim Transformation Director and that additional consultant assistance was being sought, so that the business would be fully supported.

(f) Lesley Sewell assured the Board that the base case now being considered included a model where TUPE applied.

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- (g) The Board noted the update and the next steps regarding the design phase, risk management activity and communications and stakeholder planning.
- (g) Neil Hayward and Lesley Sewell left the meeting.

POLB 14/34

APPROVAL OF 2014-15 BUDGET AND SCORECARD TARGETS

- (a) Further to previous discussions, the Board received a request to approve the 2014-15 budget.
- (b) The Board recognised the challenge in the revenue budget and were concerned by the level of growth required as compared to this year's performance. The CFO reported that the Commercial team were committed to delivering these numbers and that they recognised the importance of hitting revenue targets to help achieve breakeven for the Crown network.
- (c) The CEO explained that she had set up a Commercial Committee, which is chaired by Martin George, to drive the revenue and ensure that the Business have the right incentives in place. The commercial team would be presenting their plans at the April Board.
- (d) The Board:
 - noted the actions being taken in response to the challenges given on the Board conference call on 10 March 2014;
 - on the basis of these actions, approved the 2014-15 budget; and
 - noted the development of the Key Performance Indicators for 2014-15.
- (e) Paula Vennells, CEO, and Chris Day, CFO, left the meeting.

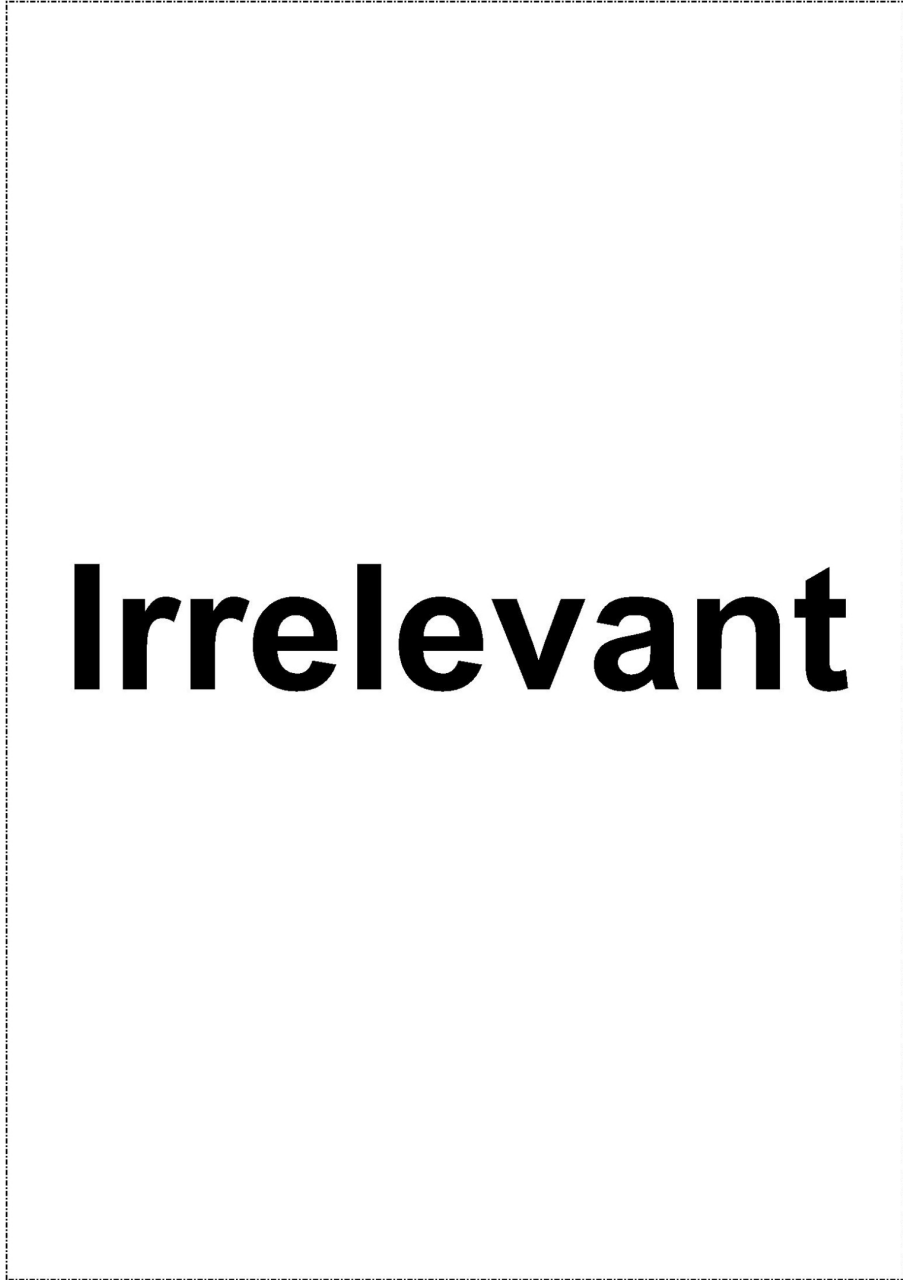
POLB 14/35

(a)

(b)

Irrelevant

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ACTION: All
ACTION: CEO

ACTION:
Martin George

POLB 14/36

(a)

(b)

(c)



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(d)
(e)
(f)

Irrelevant

POLB 14/37

Irrelevant

POLB 14/38

FINANCIAL PERFORMANCE UPDATE

**ACTION:
Chris Day**

- (a) The Board received a financial performance update for February 2014.
- (b) The CFO recognised the pressure that the shortfall in revenue was putting the Business under and suggested that he produce some analysis to further understand the underlying quality of earnings.
- (c) The Board appreciated the new Network Transformation reports but were concerned that the Locals model did not appear to be working as expected. The CFO assured the Board that work was underway to understand this trend and that the Business recognised that the Locals required more support after converting.

**ACTION:
Chris Day**

- (d) The Board asked the CFO to explain the reduction in customer sessions in the Mains Branches that have been open for 12-24 months.

**ACTION:
Chris Day**

- (e) The CFO recognised that an additional page of narrative to explain the remedial actions being taken by the Business and his views and any concerns on performance would enhance the report and promised to include this from next month.

POLB 14/39

CORPORATE GOVERNANCE REVIEW

- (a) The Board received an update on corporate governance from Alwen

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Lyons, Company Secretary.

(b) The Board:

- noted the current level of compliance with the UK Corporate Governance Code;
- approved the terms of reference presented for the Board, including a Schedule of Matters reserved for Board decision, and the Board sub-committees;
- approved the definition of the roles of the Chairman and Chief Executive;
- approved the matrix of Delegated Authorities and the Delegated Authorities for Remuneration Matters; and
- authorised the Executive Committee to be permitted to use its discretion to authorise delegates to approve contracts, commitments of expenditure and implementation of change that the Executive Committee would be authorised to approve under the authority granted to the Executive Committee by the Board. Such authority:
 - (i) may not exceed the limits of the authority granted by the Board to the Executive Committee; and
 - (ii) must be in writing and specify any limits to the authority.
- authorised any member of the Executive Committee to be permitted to use his or her discretion to authorise delegates to approve contracts, commitments of expenditure and implementation of change that that member of the Executive Committee would be authorised to approve. Such authority:
 - (i) may not exceed the limits of the authority granted by the Board to that Executive Committee member; and
 - (ii) must be in writing and specify any limits to the authority.

POLB 14/40

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 26 February 2014 were approved for signature by the Chairman.

POLB 14/41

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
- the Audit, Risk and Compliance Committee meetings held on 19 November 2013 and 11 February 2014;

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- the Financial Services Committee meetings held on 27 January 2014 and 10 February 2014;
- the Pensions Committee meetings held on 20 November 2013 and 8 January 2013; and
- the Remuneration Committee meeting held on 11 February 2014.

POLB 14/42

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, including an Energy proposition update, was noted.

POLB 14/43

PROJECT SPARROW - INSURANCE

- (a) The Board discussed the Professional Indemnity (PI) insurance and the Sparrow compensation risks. The CFO explained that PI insurance could only cover incidents for which the Business was legally responsible. Therefore any compensation paid outside that legal requirement could not be covered by PI insurance.
- (b) The Board asked the Business to consider enhancing its insurance expertise and to reconsider how it tracks events and near misses which should be reported to the insurers. The CFO was asked to provide an update for the next ARC on his proposal for PI insurance.

**ACTION:
CFO**

POLB 14/44

(a)

(b)

(c)

(d)

(e)

Irrelevant

**ACTION:
Martin George**

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ACTION;
Martin George

ACTION:
Neil Hayward/
Martin George

(f)

(g)

(h)

Irrelevant

(i)

POLB 14/45

ITEMS FOR NOTING

- (a) The Board noted the Project Maypole update.
- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.
- (d) The Board noted the update on Cyber Security and Information Assurance.
- (e) 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 1129 to 1140 inclusive in the seal register was hereby confirmed.

POLB 14/46

CHANGE OF DIRECTORS

- (a) The Board approved the appointment of Richard Callard and noted the resignation of Susannah Storey with immediate effect.
- (b) The Company Secretary was authorised to make all the necessary filings with Companies House.

POLB 14/47

Irrelevant

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(a)

Irrelevant

POLB 14/48

ACTION:
Virginia Holmes/
Company
Secretary

(a)

Irrelevant

ACTION:
Company
Secretary

(b)

POLB 14/48

DATE OF NEXT MEETING

(a) It was noted that the next Board meeting would be held on 30 April 2014.

GRO

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POST OFFICE LIMITED 26 MARCH 2014 BOARD ACTION LOG

<u>REFERENCE</u>	<u>ACTION</u>	<u>BY WHOM</u>
	<u>Project Sparrow</u>	
<u>March 2014</u> <u>POLB 14/32(g)</u>	Set up a Sparrow Sub Committee with the Chairman as Chair and to involve the CEO, Alasdair Marnoch and Richard Callard	<u>Company Secretary</u>
<u>March 2014</u> <u>POLB 14/32(l)</u>	Draft Terms of Reference for a piece of work to provide the Board and those outside the Business comfort about the Horizon system. These terms of reference should be tested with Linklaters to ensure that this work would satisfy them as evidence that Horizon is reliable and then agreed by the Board Sparrow Sub Committee.	<u>Chris Aujard</u>
<u>March 2014</u> <u>POLB 14/32(n)</u>	Try to extend the time period restricting Second Sight from acting against the Company beyond a 12 month period.	<u>Chris Aujard</u>
<u>March 2014</u> <u>POLB 14/32(o)</u>	Prepare a one page lessons learned covering 3 or 4 areas by the next Board meeting.	<u>Belinda Crowe</u>
	<u>Finance</u>	
<u>March 2014</u> <u>POLB 14/33(c)</u>	Present on options to cover the gap in the strategic plan (Supply Chain) at the May Board	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/33(d)</u>	Model the scenario where revenue remained flat next year, to show the cost savings which would be required to hit the strategic plan profit target.	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/38(b)</u>	Produce some analysis to further understand the underlying quality of earnings.	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/38(d)</u>	Explain the reduction in customer sessions in the Mains Branches that have been open for 12-24 months.	<u>CFO</u>
<u>March 2014</u>	Include an additional page of narrative to explain the remedial actions being taken by the	<u>CFO</u>

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<u>POLB 14/38(e)</u>	Business and the CFO's views and any concerns on performance to be included in the financial performance update from next month.	
	<u>Strategy</u>	
<u>March 2014</u> <u>POLB 14/35(g)</u>	Provide a paper to explain the work underway to increase access points.	<u>Martin George</u>
<u>March 2014</u> <u>POLB 14/44(e)</u>	Consider what it would take to deliver the results more quickly and achieve the targets in the strategic plan for Project Wave.	<u>Martin George</u>
<u>March 2014</u> <u>POLB 14/44(f)</u>	Inform the Board when a single view of the customer was likely to be available.	<u>Martin George</u>
<u>March 2014</u> <u>POLB 14/44(g)</u>	A paper on 'colleague offers' to come to the next Board meeting.	<u>Martin George/Neil Hayward</u>
	<u>Miscellaneous</u>	
<u>March 2014</u> <u>POLB 14/35(f)</u>	Revert back to the Chairman with any comments on the personal objectives for the CEO.	<u>All</u>
<u>March 2014</u> <u>POLB 14/35(f)</u>	Circulate the objectives for the CFO.	<u>CEO</u>
<u>March 2014</u> <u>POLB 14/43(b)</u>	Provide an update for the next ARC on the CFO's proposal for PI insurance	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/48(a)</u>	Discuss proposed draft Pensions Committee terms of reference at the next Pensions Committee meeting.	<u>Virginia Holmes/ Company Secretary</u>
<u>March 2014</u> <u>POLB 14/48(b)</u>	Richard Callard to replace Susannah Storey on the Pensions Committee and Neil Hayward to replace the CFO.	<u>Company Secretary</u>