

In Strictest Confidence

POLB04(7TH)
POLB 04/86 – 04/109

Post Office Limited

(company no. 2154540)

Minutes of the meeting of the Board
held at 80-86 Old Street, London
on October 13th 2004

Present:

Sir Michael
Hodgkinson
David Mills
Ian Anderson
Peter Corbett
Brian Goggin
Graham Halliday
Allan Leighton
David Miller
Gordon Steele

Non-executive Chairman
Chief Executive
Human Resources Director
Finance Director
Chief Executive, Bank of Ireland
Banking & Financial Services Director
Chairman, Royal Mail Holdings (for POLB04/86 – POLB04/97)
Chief Operating Officer
Sales & Marketing Director

In attendance:

Jonathan Evans
Neil Owen
David Smith
Simon Broome

Martin Gafsen

Byron Roberts

Company Secretary
Notes
Delivery Director (Acting IT Director)
Head of People Change, Crown Office Strategy (for POLB04/94
- POLB04/95)
Investment Director, Group Finance (for POLB04/98 –
POLB04/100)
Programme Director, Crown Office Strategy Strategy (for
POLB04/94 - POLB04/95)

Apologies:

Elmar Toime

Executive Deputy Chairman, Royal Mail Holdings

POLB04/86

ELMAR TOIME

The Chairman reported that Elmar Toime would be leaving Royal Mail Group within the near future. He would therefore be resigning his position as director of the Company.

POLB04/87

MINUTES OF PREVIOUS MEETING POLB(04)6TH

The Board approved the minutes of the Board meeting of 1st September 2004.

POLB04/88

STATUS REPORT POLB(04)71

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The Board noted the report, and in addition:

Irrelevant

POLB04/90

CHIEF EXECUTIVE'S REPORT

David Mills reported the following matters to the Board:

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GRO

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Irrelevant

- (iv) Executive Committee Off-Site: A meeting had taken place to discuss the Strategic Plan for 2005/06. A detailed 3 year plan would be written, together with a narrative for which would outline the following 2 years;

Irrelevant

- (vii) Meeting with sub-postmasters, West Ham, Football Ground: The meeting had gone well and had underlined how important it was for Post Office Ltd to appeal strongly to ethnic minority groups with its products and services;

Irrelevant

- (x) Dinner with Alistair Darling in Scotland: The Chairman reported that Alistair Darling's PPS was looking at how the Scottish Office could fund the rural network in Scotland. Ian McKay and David Miller would follow up on this matter.

Action:
David Miller

Irrelevant

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Irrelevant

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Irrelevant

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Irrelevant

POLB04/101

**HORIZON – NEXT GENERATION BUSINESS CASE
(DELEGATED AUTHORITY) POLB04(82)**

David Smith presented the Horizon – Next Generation Business Case to the Board. The Board noted that:

- (i) the business case concerned the next stages of work required in order to obtain a firm price quotation from Fujitsu;
- (ii) legal resources need to be engaged to support the negotiation of an amended contract between Post Office Ltd and Fujitsu to build, implement and operate Horizon 'Next Generation';
- (iii) the current Fujitsu contract expired in 2010. To put a new contract in place would require preparation of an ITT in January 2005. This would ensure the available options were maximised and would improve the negotiating position;
- (iv) this preparatory work would be essential to ensure the target of reducing the Directly Managed Branch cost base by 25% was achieved;
- (v) the S90 Release scheduled for Autumn 2004 would provide the last opportunity to amend the current Horizon system.

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The Board agreed that:

Action:
David Smith

- (i) The IT Roadmap evaluation business case would be refined to more clearly define the objectives, the parameters of the programme, and the minimum acceptable outcome.
- (ii) Evidence would be provided that negotiations with Fujitsu represented clear value as against the alternative of going out to tender;
- (iii) It would be reviewed whether the legal fees related to the entire business case, or the scoping exercise.

Action:
David Smith

POLB04/102

SUBSIDIARY / ASSOCIATE COMPANY ITEMS FOR APPROVAL POLB04(83)

The Board noted the minutes of the Post Office Financial Services Board meetings of 18th May 2004, 18th June 2004 and 21st July 2004.

FUNCTIONAL REPORTS

POLB04/103

FINANCE REPORT POLB(04)84

The Board noted the report.

In addition the Board noted that a deal had been struck with the DWP to address the volatility of pre-funding.

POLB04/104

OPERATIONS REPORT POLB(04)85

The Board noted the report. The Board further noted that:

- (i) the new Minister, Gerry Sutcliffe, had proposed a monthly 'surgery' at the House of Commons from April 2005, the likely result of which would be to reduce the number of questions tabled by the floor;
- (ii) protracted discussions concerning Network Reinvention branch closures continued in Birmingham. The matter could result in a judicial review.

Irrelevant

GRO

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Irrelevant

POLB04/107

IT REPORT POLB(04)88

The Board noted the report. The Board further noted:

- (i) most of the challenging issues concerning Pinpads had finally been overcome;
- (ii) a risk existed that the Chip and Pin deadline would not be met, but every effort was being made to ensure it was achieved.

The Board agreed that:

- (iii) an article would be provided to 'The Sub-postmaster' explaining the reasons for the Card Account outage on 23rd September 2004, and outlining the short time in which the majority of systems were back up and running;

Action:
David Smith &
Graham Halliday

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POLB04/108

HUMAN RESOURCES POLB(04)89

The Board noted the report.

The Board agreed that in situations where fraud had been perpetrated against the Company, the appropriate Civil Orders would be used immediately and in advance of any Criminal proceedings. This would help recovery efforts by ensuring that the assets of those involved in criminal activity were quickly secured. David Miller would verify the current procedures and report back to the Board.

Action:
David Miller

POLB04/109

ANY OTHER BUSINESS POLB(04)90

Sub-postmaster Exhibition: David Mills reported that a subsidiary of Hayes Travel had been provided with a stand at the Sub-postmaster exhibition to promote their bureau de change product. The Chairman advised the meeting that First Choice plc (of which he is also Chairman) had a 37½% shareholding in Hayes Travel Services).

The Board agreed that:

- (i) it was both damaging and inappropriate for a direct competitor of Post Office Ltd to be accommodated at the exhibition in this way;
- (ii) Post Office Ltd would re-consider the subsidy provided to the NFSP if they continued to undermine the position of Post Office Ltd;
- (iii) a list of competing non-Post Office Ltd financial services products would be compiled and provided for review by the Board
- (iv) a communication would be circulated to branches highlighting that these third party arrangements would not be covered by the agreements Post Office Ltd had reached concerning Money Laundering and the Financial Services Act.
- (v) Post Office Ltd would maintain a presence at the exhibition so as not to draw unnecessary publicity to the situation.

Action:
Graham Halliday

CLOSE

There being no further business, the meeting was closed.

Sir Michael Hodgkinson