

ROYAL MAIL HOLDINGS plc
(Company no. 4074919)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London, on 11 September 2008

Present:

Richard Handover	Non-Executive Director (Chairman of meeting)
Allan Leighton	Chairman (by telephone, for RMH08/114-126)
Andrew Carr-Locke	Non-Executive Director
Alan Cook	Managing Director, Post Office Ltd
Adam Crozier	Group Chief Executive (by telephone, for RMH08/114-119)
Ian Duncan	Group Finance Director
David Fish	Non-Executive Director
Mark Higson	Managing Director, Royal Mail Letters
Baroness Prosser	Non-Executive Director
Helen Weir	Non-Executive Director

In attendance:

Jonathan Evans	Company Secretary
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Also present:

Rico Back	Chief Executive, GLS
Martin Gafsen	Group Property Director, for RMH08/119
Ray Huntzinger	Managing Director, iRed, for RMH08/123
David Belton	Project Manager, iRed, for RMH08/123

RMH08/114

CHAIR OF MEETING

- (a) The Board agreed that as Allan Leighton was unavoidably unable to be present at the meeting, Richard Handover should take the chair.

RMH08/115

DIRECTORS

- (a) The Board noted that Andrew Carr-Locke had been appointed as a director of the Company with effect from 1 September 2008, and welcomed him to his first meeting;
- (b) the Board noted that David Fish's term of appointment as director of the Company ended on 30 September 2008. At this his final meeting, Board members expressed their great thanks for the immense contribution he had made to the Board and the Company. The Board would miss in particular his feisty challenges, grounded in experience and commonsense and always driven by doing the right thing for customers. The Board wished him well for the future.

RMH08/116

FINANCE DIRECTOR'S REPORT – RMH(08)70

- (a) The Board noted Ian Duncan's report on performance in period 4 of 2008/09, and his presentation of the flash results

for period 5;

- (b) the year-to-date results at the end of period 5 showed that operating profit before exceptional items was £61million, which was £32million adverse to budget and £63million favourable to the prior year;
- (c) in period 5, Letters operating profit had outturned £8million ahead of budget, mainly the result of a strong revenue performance. However the revenue position had been impacted favourably by the August bank holiday: this was expected to reverse in period 6 with the underlying trend remaining as had been reported in previous periods;
- (d) the full-year forecast was still to meet the budgeted operational profit before exceptional items of £275million. While the Letters business was suffering further revenue decline in unpredictable market conditions, and experiencing slower than expected benefits from changes in working practices, management believed the Group budget was still attainable through a combination of cost reductions and the benefit of not having incurred compensation penalties;
- (e) the Letters business itself was forecast to achieve its full-year target of £39million, with forecast adverse movements in revenue of £100m and in energy and operational costs of £38million offset by overhead and functional cost reductions of £60million, together with the beneficial effects of £43million from the pension charge and £35million from the favourable outcome of the Postcomm QoS compensation decision;
- (f) GLS was trading in line with budget, and the full-year forecast was for it to continue to do so in € terms, with a £2million currency gain. Parcelforce and POL revenue was down compared to budget, but this was more than offset by cost of sales and overhead reductions, leading to a forecast net benefit of £4million. The forecast for Central units was a shortfall of £6million, mainly due to slippage in iRed's business plan;
- (g) in subsequent discussion, the Board wished to understand the robustness of the forecast given the uncertain economic circumstances in which the Group was operating, and in particular requested to see the range of possible responses to a further substantial fall in Letters revenue. Ian Duncan undertook to return to the Board at the following meeting with an assessment of this;
- (h) Ian Duncan referred to the discussions he was holding with representatives of the Royal Mail Pension Plan Trustee about further de-risking of their investment strategy. These discussions covered a speedier implementation of swap overlays to protect against inflation volatility, and a further reduction in equities to below 50% of total assets. The Board noted this report.

ACTION
Ian Duncan

RMH08/117

**DRAFT LETTERS BUSINESS STRATEGIC PLAN –
RMH(08)75**

- (a) The Board noted Mark Higson's paper, which contained a summary of the draft strategic plan for the Letters business. The draft plan was to be submitted to Postcomm on 15 September in accordance with their Price Control Review timetable, and it would be made clear to Postcomm that the draft had not yet received the Board's approval;
- (b) the paper highlighted the main proposed changes from the earlier strategic plan approved in April 2008. Directors were asked to give any comments on the draft summary to Mark Higson or Ian Duncan before the October Board meeting, at which the draft plan would be submitted for full approval.

**ACTION
All**

RMH08/118

INDEPENDENT REVIEW OF THE POSTAL SECTOR

- (a) Adam Crozier updated the Board on the Review. A draft of the final Review report was expected to be made available for comment in a few weeks' time.

RMH08/119

**STRATEGIC REVIEW OF THE ADMINISTRATIVE ESTATE
(PROJECT NOBLE) – RMH(08)72
*DISCLOSE***

- (a) The Board noted Adam Crozier's paper, and Martin Gafsen's accompanying presentation;
- (b) the administrative estate had suffered from a lack of investment over many years, and more recent organisational changes had resulted in poor space utilisation;
- (c) a strategy had been developed with the aim of providing single site accommodation for each of POL HQ and Group HQ, enabling better ways of working, improved communications and facilitating cultural change. Improved space utilisation would be targeted by optimising the accommodation footprint through consolidation, relocation and external letting of spare capacity, with flexibility to respond easily to future changes and to allow value realisation at the appropriate time. The overall objective would be to minimise additional costs against a 'Stay Where We Are' option (which itself assumed a level of refurbishment cost given the poor state of the current office premises);
- (d) the main elements of the proposal were to vacate 80 and 130 Old Street, to refurbish 148 Old Street to form a new head office for POL and to contain RM Wholesale and iRed, and to acquire a new building for Group head office. Consolidation would also take place in Chesterfield and Milton Keynes;
- (e) in discussion the Board recognised the need for a

rationalisation of administrative accommodation, but raised a number of queries and challenges:

[Information Removed]

- whether space optimisation could be achieved by more extensive use of open plan working;
- whether the new Group head office could be acquired for no incremental cost over and above that of staying in 148 Old Street;

[Information Removed]

- (f) in conclusion the Board supported the overall aim of the review, but asked for the detailed proposals to be re-considered in the light of the Board's challenges.

RMH08/120

MINUTES OF PREVIOUS MEETING RMH(08)7TH

- (a) The Board approved the minutes of the meeting held on 8 July 2008.

RMH08/121

MATTERS ARISING – RMH(08)69

- (a) The Board noted the status report;
- (b) POL Direct (RMH08/88(e)): Alan Cook reported that work was continuing on the POL Direct strategy, which would return to the Board in due course. The challenge was to devise a way of introducing it within POL business plan limitations, to which end innovative means of funding the strategy were being explored;
- (c) GLS expansion (RMH08/103(g)): Rico Back reported that since the July awayday, when this issue had been raised, GLS was alert to the possibility of having a presence in India and would continue to look for opportunities;
- (d) RML revenue (RMH08/104(e)): the Board supported the proposed approach to Christmas 2008, and requested Mark Higson to report to the November board on the Letters business' readiness for Christmas;

ACTION
Mark Higson

- (e) Financial reports (RMH08/104(f)): the Board noted that the monthly reporting pack now contained reports on the impact of exchange rates on results, and requested that this be carried into the monthly flash results report.

ACTION
Ian Duncan

RMH08/122

OTHER MINUTES

- (a) The Board noted the minutes of the meetings of:

- the Group Executive Team on 17 July 2008
- Pensions Sub-Committee on 7 August 2008
- Post Office Ltd Board on 21 July 2008.

RMH08/123

iRED PARTNERSHIP

- (a) Ray Huntzinger gave a presentation to explain to the Board iRed's customer offer, its potential attractiveness to businesses, and its significance to Royal Mail;
- (b) *[Information Removed]*
- (c) the Board thanked Ray Huntzinger for his presentation, and looked forward to seeing reports of revenue growth in the near future.

RMH08/124

CHAIRMAN'S BUSINESS

- (a) The Chairman reported that the Government was beginning the process to find a successor for him when he stands down from the Board in March 2009. An advertisement for the Chairman position was due to appear in *The Sunday Times* on 21 September.

RMH08/125

REPORTS FROM CHAIRS OF BOARD COMMITTEES

- (a) Nomination Committee: Richard Handover reported that interviews were due to take place later that day with four NED candidates, and others would follow later. He was hopeful that there would be at least one candidate of sufficient calibre to join the Board. Meanwhile the search for a Group HR Director was continuing;
- (b) *[Information Removed]*
- (c) Remuneration Committee: David Fish reported that he had been asked to meet officials from the Treasury to discuss outstanding issues with the bonus scheme and executive pay proposals. The meeting was scheduled to take place on 29 September;
- (d) Audit and Risk Committee: Helen Weir reported on the business conducted at the Committee meeting held on 3 September 2008. The main items discussed were:
 - tax team changes: controls had improved, but there were still some appointments to make to complete the team;
 - POL financial services compliance: a worrying report had been received which highlighted some potential vulnerability. The Committee would be pursuing this further at the next meeting, which Alan Cook had been

invited to attend. The Committee had concluded more generally that it would be useful for each business unit to attend the Committee periodically to discuss any control issue concerns, and this was being arranged;

- Internal Audit team performance: this had been formally reviewed by the Committee, management and the external auditors. There was a general consensus that performance was positive;
- Committee effectiveness: the Committee had conducted its annual assessment of its own effectiveness against the Combined Code's requirements, with the results showing a high degree of compliance. The Committee had been concerned that despite succession planning in the Company having been raised a number of times at the Board as a key risk area, there had been no visible sign of progress;
- Interim statement 2008/09: the Committee had endorsed the approach proposed;
- External auditors: the Committee was satisfied with the survey of Ernst and Young's performance, and had agreed their audit fee.
- GLS internal audits: the Committee had been pleased to see the progress being made under the new GLS audit manager, who would be invited to attend the Committee periodically to report on the audit programme and the key themes emerging from it;
- IT control environment: Robin Dargue had presented an update, and there were clear signs of significant improvement in the areas of weakness previously of concern to the Committee;
- Tracked+: Mark Higson had explained to the Committee the lessons learned from the need to reauthorise this business case, which he felt would be valuable for the authorisation and implementation of future projects in the Letters business;
- Directors' expenses: the Committee had conducted its annual review, and found the position to be satisfactory;
- GLS Finance Director reporting lines: there was still an outstanding point which would be considered by the GLS audit committee about the creation of a role in GLS for someone to have a roving oversight of performance and financial control issues across the GLS businesses;

(e) David Fish recommended that the Committee commissioned

ACTION
Ian Duncan

some activity to test the responsiveness and resilience of the Company against its major risks. Ian Duncan undertook to follow up this suggestion and report back to the Audit and Risk Committee;

- (f) Helen Weir reported that she had been in correspondence with the Chief Executive of Postcomm about alleged shortfalls in Royal Mail's handling of confidential information shared with the Company by Postcomm. The accusations, largely unfounded, had been responded to, and the exchange of correspondence was shared with the Board. It was likely that the matter would now be considered by Postcomm to have reached a conclusion.

RMH08/126

EXECUTIVE REPORTS

- (a) The Board noted the reports;
- (b) Royal Mail Letters: Mark Higson reported that there had been three fatal third party road traffic accidents in the period. No action was being taken against the Royal Mail drivers;
- (c) 1st class quality of service in period 5 had exceeded the target, with performance at 93.5%;
- (d) the proposed closure of Liverpool mail centre had been announced, with predictable adverse reaction from local politicians and union representatives. An alternative site for a mail centre in Liverpool had been proposed locally, and this was being examined;
- (e) the industrial action climate was fractious, with many sporadic incidents, opposition to the use of PDAs and the threat of a national ballot. Management was maintaining a consistent robust position;
- (f) GLS: Rico Back reported that in period 4 the GLS Group revenues were €154.9million and EbitA €12.1million representing an EbitA margin of 7.8%. The EbitA of €12.1million was €1.8million higher than the prior year and broadly in line with budget. Strong performances had again been reported by GLS Germany and GLS Poland. The GLS France EbitA was €0.9million ahead of the prior year and marginally down on budget. The full year EbitA forecast remained in line with the GLS Group budget of €180.1million. Economic conditions across Europe, particularly in the Benelux region, were showing signs of weakness. Volume growth to date had been maintained, but due to cost inflation in the wider economy, margins may come under pressure;
- (g) Post Office Ltd: Alan Cook reported that PO *Essentials* had been launched in Hastings - a "cut-down" low-cost Post Office outlet running on a small physical footprint designed to reduce

dependency on the Social Network Payment;

(h) *[Information Removed]*

(i) *[Information Removed]*

(j) the Board asked for the team leading Network Change to be congratulated on their work, having managed to make a very demanding programme run to time.

RMH08/127

CAMELOT CONTRACT RENEWAL – RMH(08)71

(a) The Board noted Alan Cook's paper, and agreed to the signing of a new contract with Camelot for the sale of lottery tickets and issuing prize payments, on the terms set out in the paper.

RMH08/128

CORPORATE FINANCE REPORT: QUARTER 1 – RMH(08)73

(a) The Board noted the paper.

RMH08/129

REGULATION REPORT – RMH(08)74

(a) The Board noted the paper.

RMH08/130

COMPANY SECRETARY'S REPORT – RMH(08)76

(a) The Board noted the report.

RMH08/131

OTHER BUSINESS

(a) Committee membership: Richard Handover referred to the need to review the membership of the Board's committees in the light of NED changes. The Board noted that:

- David Fish would cease to be Chairman of the Remuneration Committee and member of the Nomination Committee on 30 September 2008;

agreed that:

- Andrew Carr-Locke would become a member of the Audit and Risk Committee with effect from 1 September 2008;

and further agreed, as temporary measures pending a review of committee membership on the appointment of new non-executive directors, that:

- Richard Handover would chair the Remuneration Committee;
- Margaret Prosser would chair the Nomination Committee;
- Andrew Carr-Locke would join Richard Handover and

Margaret Prosser as a member of the Remuneration and Nomination Committees;

- these appointments would take effect on 1 October 2008.

RMH08/132

CLOSE

- (a) In the absence of any further business, the Chairman closed the meeting. The next scheduled meeting of the Board was on 8 October 2008, at 148 Old Street, London.