

## Message

**From:** Owen Woodley [GRO]  
**on behalf of** Owen Woodley [GRO]  
**Sent:** 12/11/2019 18:51:01  
**To:** Alisdair Cameron [GRO]; Shikha Hornsey [GRO]; Nick Read [GRO]; Ben Foat [GRO]  
**CC:** Meredith Sharple [GRO]  
**Subject:** Re: Fujitsu decisions thoughts - legally privileged

Good question, Al.

Just as a reminder to everyone on the specifics around Telco, there are two key dates in the current contract. By February 2020 we must inform Fujitsu on our next steps or we will lose the contractual right to the provision of exit services from FJT. And by August 2020, the contract will expire unless we agree an alternative by February. So we could potentially pause the RFP, but still require a new contract in place by February. And doing so would involve incremental costs - both programme costs and delayed benefits realisation. Furthermore, to Shikha's point about deciding what we want to do with the Telco business, we will not be in a position to do this until the PJT process has concluded in April.

So long story short, I do not think pausing the RFP necessarily helps us. I think the bigger/main question is whether we remain pure to the Telco RFP process, accept the consequences for Fujitsu and leverage those consequences for the wider relationship. Or else, we decide that we need to keep Fujitsu on side for now from a wider relationship perspective and therefore we accept a sub-optimal RFP outcome by effectively cancelling the formal process and leaving the Telecoms business with them on similar (to today) terms for us whilst we explore the sale option.

The latter route effectively does what I suspect Fujitsu have always assumed we were going to do in the end, i.e. stick with them when it came to the crunch, which is why they have bid on a unified basis throughout despite knowing the risks. So I am not sure that is helpful in the context of the wider relationship discussions. And we should also remember, critically, that if we then decide not to sell, we will be stuck with a sub-optimal commercial arrangement for at least a lengthy period with Fujitsu.

So this is a really big call in my view. And therefore back to Al's question, I think we should extend the Telco slot at the GE next week to have the wider discussion.

Cheers.

Owen

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**From:** Alisdair Cameron [GRO]  
**Sent:** Tuesday, November 12, 2019 12:11 pm  
**To:** Shikha Hornsey; Nick Read; Ben Foat; Owen Woodley  
**Cc:** Meredith Sharples  
**Subject:** RE: Fujitsu decisions thoughts - legally privileged

Thanks, how do we keep this conversation moving forwards? Al

**Al Cameron**  
**Chief Financial Officer**



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**From:** Shikha Hornsey [GRO]  
**Sent:** 08 November 2019 16:26  
**To:** Nick Read <[GRO]> Ben Foat [GRO]; Alisdair Cameron  
 <[GRO]>; Owen Woodley [GRO]  
**Cc:** Meredith Sharples [GRO]  
**Subject:** RE: Fujitsu decisions thoughts - legally privileged

Hi All,

To carry on yesterday's Fujitsu:Horizon exam question discussion, my thoughts are as follows:

I believe that the exact exam question is "What technology does the Post Office need to enable its business for the foreseeable future (the next 5 years at least) and is it something that Fujitsu or more specifically, Horizon, can provide?"

- While I understand that Nick, with McKinsey's aid, is defining our future Purpose, Strategy and Growth, the general technology themes required to enable and sustain our business in the future should remain largely the same regardless of the specifics of our business direction.
- I would expect our immediate and near-future technology requirements to broadly be cloud-enabled, standardized, user-friendly, scalable, secure, customer centric, easily upgradeable, service oriented, integrated, etc....in other words "modern", as this is more a function of the time rather than a function of the specifics of the business.

I would argue therefore that the answer of the exam question, as things currently stand, is "no".

Having said that, as we are not starting with a blank canvas nor are we in possession of a great deal of unallocated funds or time, the question then becomes: Given our starting point of the current Horizon system, contracts and relationship with Fujitsu, how do we get to a position where the Post Office has the technology it needs to enable its business and really face into the future (ideally by 2023 when the contract ends)?

Thanks Al, Ben and Owen for providing such clarity regarding the history of the Fujitsu-POL relationship, GRO, Telco, etc. and the various constraints that these issues potentially impose on both our behaviour and our options to deal with an exit plan effectively and cleanly. My analysis of the situation is:

- **Strategically (includes both IT and GRO):** I think our options have really narrowed down to one: after exiting the Belfast datacentres and in partnership with Fujitsu, evolve the Horizon system capabilities in the cloud opportunistically (via POL business driven projects (HiH, PCI, etc.)) using augmented Fujitsu resources and already committed funds. We'll also be in a better position by 1 April 2021, when we can terminate for convenience, to gauge the speed and quality of delivery and determine whether we need to extend the contract any further than 2023 or plan for an earlier termination.
  - As the powerbase of our Fujitsu relationship has now moved back to Japan, it would also make sense for Nick, at some point in the future (not now), to establish stronger ties with Takahito Tokita, the President of Fujitsu Global. It'll give us more levers to pull and certainly establish more collaboration.

- Additionally, and regardless of the whether we would ever litigate against them for GLO, I think that the threat of choosing not to is a bargaining tool that we need to have and they need to subtly be made aware of.
- **Tactically:** regarding the Telco bid (appreciate I was only asked to get involved this Wed, so may have missed some nuances, @Owen – thanks for the discussion last night), in order to buy ourselves more time regarding the 17 Feb exit notification date, we have two options:
  - Either we slow the Telco RFP process down to really assess if we're staying in the Telco business or selling it (which is what my recommendation would be) and while we do that:
    - We negotiate an extension with Fujitsu for a year (we will need more than 6 months, regardless.)
      - We can easily say that we are waiting for McKinsey to assess as part of their evaluation process.
      - We take a very hard look at what the Telco business is really worth to us and decide what we want to do with it, since the GLO verdict will have come in by then and we will be in a better position to assess.
    - If we do not wish to slow the Telco RFP process down, then we do everything in our power to secure a 1 year extension without involving Nick, even if it means discussing with Fujitsu that we are actually evaluating the Telco business for Sale, since we do not have any real funds to cover potential damages for a truly bad GLO judgement, etc.
      - Regardless of whether they believe us, this is a much more collaborative message than taking the Telco business away from them and giving it to someone else and signals subtly that we are not planning on suing/blaming GLO on them. *We need them to work with us to get out of the Belfast Datacentres, get PCI-DSS certification and transform Horizon (to say nothing of the various other business projects that we need them to help deliver).*
      - Optically, it sends the wrong message if Nick gets involved at this juncture, as it'll be seen as a sign of desperation on POL's part, regardless of what we say. My view is that the POL-Fujitsu relationship should be nurtured at that level but kept aside to use at great need, if required. (@Ben, Owen, AI – thoughts on how else to do it? would welcome input.)
      - If we have difficulty securing an extension for a year, then:
        - we explore extending the IT Fujitsu (Horizon) contract until 2025 (@Ben – compliance/ procurement issues need to be discussed and thought through)

while we get the extension for Telco for a year,

- 
- *as long as they work with us to safely exit the Belfast Datacentres, get PCI certified and transform Horizon in the cloud.*

Apologies for the long email and would be happy to discuss further.

Regards,

*Shikha*



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GRO

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**From:** Nick Read <GRO>  
**Sent:** 07 November 2019 07:45  
**To:** Ben Foat <GRO>; Alisdair Cameron <GRO>  
**Cc:** Owen Woodley <GRO>; Shikha Hornsey <GRO>; Meredith Sharples <GRO>  
**Subject:** RE: Fujitsu decisions thoughts - legally privileged

Ben and Al,

Very helpful context, both for the immediate Telco debate and the broader Fujitsu discussion. I think this fits with the exact exam question Shikha has been working on for the last 10 days. It would be good to hear those thoughts when we meet.

Nick

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**From:** Ben Foat <GRO>  
**Sent:** 06 November 2019 15:52  
**To:** Alisdair Cameron <GRO>  
**Cc:** Nick Read <GRO>; Owen Woodley <GRO>; Shikha Hornsey <GRO>; Meredith Sharples <GRO>  
**Subject:** Fujitsu decisions thoughts - legally privileged

Thanks Al. Given the context which you outline, it is difficult to see how this relationship is sustainable beyond 2023. We should consider:

- Are we comfortable that there are other providers that could offer a competitive alternative (given experience on Trinity). It would be helpful to have Shikha and Mark Siviter's view on this – e.g what systems does Duette Post or Australia Post use?;

- What the practical challenges of moving post 2023 (financial consequences shifting before 2023 see below). The solution is to find a pathway on each of the areas below.

Turning to the areas of focus:

#### **IT/ Horizon**

The Horizon Agreement has a minimum committed spend commitment of circa £195.7m which POL will need to pay any shortfall at expiry or termination. POL cannot terminate for convenience before 1 April 2021. To scope out a new front office system and run an OJEU procurement for this is likely to be 12-18 months process. I query/have reservations as to whether CCS framework would be suitable.

If we were minded to extend with FJ, I'd like to revisit the grounds upon which POL did the previous direct award under Trinity to see if POL could legitimately extend compliantly. I do think the business needs to consider whether they really are the right supplier after all FJ itself pulled its own K5 hosting platform when we were well into the Everest project and recommended Azure instead. I also understand that the FJ support involves a number of long standing employees who are heading toward retirement and there remains concerns whether they are providing the right support to maintain the service. Given the strategic importance of the public sector market to FJ UK, POL ought to be considered a preferred customer. I query is there is something to be had in leveraging our government ownership with them.

#### **Telco**

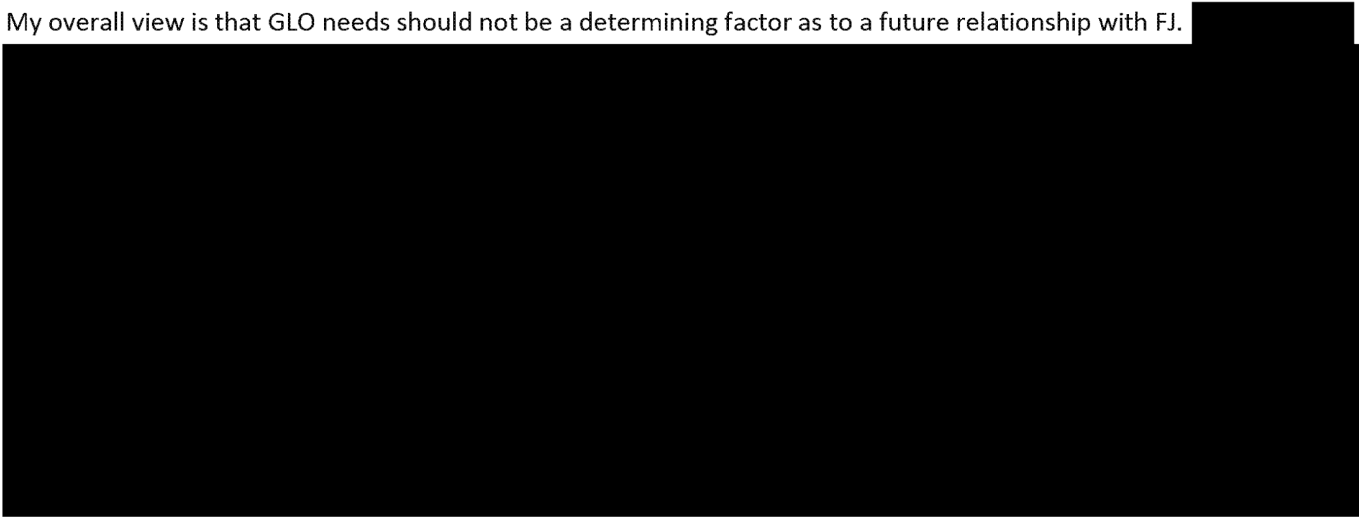
FJ has played a high stakes game with the Telco bid as a compliant process does not allow for disaggregated bids. If POL is to allow disaggregation there is medium to high risk that it would breach the EC Treaty rules although the overall risk is low to medium given the barriers that the challengers would need to satisfy. Just for clarity POL is subject to EC Treaty rules (PCR doesn't apply due to a telecom exemption). My observation is that the RFP process has delivered excellent outcomes for POL and therefore it should follow that process and take the best outcome for the telco business.

The challenge is:

- there is a timing issue triggering exit provisions in the current contract. The Telco Fujitsu contract ends on 17 August 2020 and POL would need to give notice regarding exit transition arrangement by 17 February 2020. It won't be until December / January until we get a contract with a preferred bidder. Consequently, it would be helpful if FJ accepted our request of an extension of say 6 months in circumstances but the challenge is that they don't have to. A possible solution that we invoke termination for convenience before 17 February as this gives us a longer exit transition period to on-board a new supplier. I am discussing this with Legal;
- potential impact to sale. I would like to understand if a new supplier arrangement and timings with FJ in terms of notice (notifying of sale) would have any impact on a prospective sale price. I suspect not materially but it is worth checking.

#### **GLO**

My overall view is that GLO needs should not be a determining factor as to a future relationship with FJ.



[REDACTED]

Finally, it is necessary to have FJ continuing to support on the trials however the most important trial for them to support was the Horizon trial which is due to be handed down shortly. Whilst we do still require their support, we have that contractual right for that support and their role is (relatively) less important in the subsequent trials.

Apologies for the length of the email but there are a number of complexities. Happy to discuss tomorrow.

Kind regards  
Ben



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**From:** Alisdair Cameron

**Sent:** 05 November 2019, 12:22

**To:** Ben Foat <**GRO**>

**Cc:** Nick Read <**GRO**>; Owen Woodley <**GRO**>; Shikha Hornsey <**GRO**>; Meredith Sharples <**GRO**>

**Subject:** Fujitsu decisions thoughts - legally privileged

Ben,

Welcome your advice on this note, which is intended as a prep note for Nick's meeting on Thursday – as it's only 30 minutes I thought some ground clearing and context might be helpful. However, these are legally complex areas and I appreciate I may not understand them properly.

Thanks Al

**Context (debatable)**

Fj broadly think we are an opportunity to be monetised aggressively and occasionally patted on the head with slightly lower costs. They believe we have neither the capability nor the will to really exit on either Horizon or Telco – last time they walked away from Horizon, we tried to replace them and failed.

All other things being equal, which they are not, they are not the supplier we would choose now for our front office systems because their new tech and digital skills are lagging.

Our current contract to 2023 guarantees them a level of income although we have some flexibility around what they do for it – provided they agree and price competitively within the PCR rules.

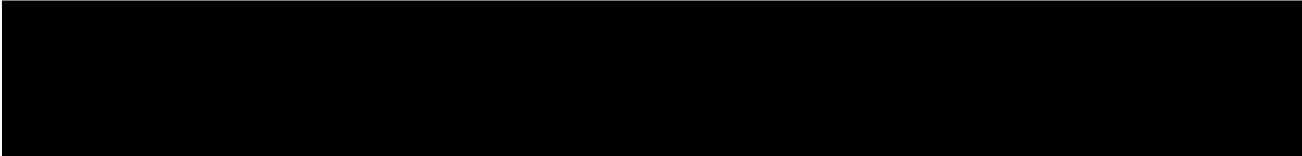
Their performance over the GLO has been truly awful – they told us that they didn't have remote access when they did, they told us they couldn't recover historical KELs when they could and their witness performance was terrible. This could make them less keen to stay engaged (but they are probably quite thick skinned) or create brand issues with retaining them.

## Decisions and choices

1. Telco. I don't have any data or influence over the Telco RFP but if we follow the context above they will likely games play around the process in the belief that we will back off. If we don't back off or we decide to sell anyway, then one way or another we do exit them.
2. Playing out the H contract to 2023 seems, on the face of it, a potentially horrendous decision for the reasons below – so are we in fact bluffing?
  - We don't know how core H really works
  - We don't have a plan to get off it
  - We would have to pay double costs to create the new before we can reduce the commitment on the old – which is entirely unaffordable

So is there in fact a set of IT requirements (on the cloud and out of Belfast, joining up the digital and store IT journeys, giving us access to more and better data, having a future for the core H back end etc) that we want to deliver? And are they actually the best people to deliver it? Should we in fact sign a new 10 year agreement with a reducing cost base which delivers these changes and retain them? If we are going to have this conversation with them, surely the sooner the better – the nearer we get to 2023, the more obvious the bluff? (I know procurement is difficult but we could publish the decision and invite challenge – no one came forward last time and if they did we would get more competition on price).

3.





My sense is that we fail to have honest and open conversations and don't really understand where they are game-playing. We think of them as separate beasts and they have a joined up view of us. We do not understand the conversation and perspectives between UK and Japan.

## Questions

Do we (exactly who and when) need to go to Japan and have an open meeting about the future to see if we can break out of the current set of impasses? If it was Nick and in November, would that shake them into a new conversation – are the Japanese actually more interested in strategic relationship vs short term money? Should we wait for clarity on Telco? Or do we at least need to re-start the relationship build even before we know the questions?

How do we get clarity on the future of H?

Thanks Al



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