POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

MINUTES OF A STRATEGY SESSION OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON WEDNESDAY 29 JULY 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 10:00 AM[1]

Present:	Tim Parker	Chairman **(TP)**
	Nick Read	Group Chief Executive Officer **(NR)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Carla Stent	Non-Executive Director **(CS)**
	Zarin Patel	Non-Executive Director **(ZP)**
	Lisa Harrington	Non-Executive Director **(LH)**
	Alisdair Cameron	Group Chief Finance Officer **(AC)**
In attendance:	Veronica Branton	Group Company Secretary **(VB)**
	Richard Taylor	Group Corporate Affairs and Communications Director **(RT)**
	Dan Zinner	Group Chief Strategy and Transformation Officer **(DZ)**
	Owen Woodley	Group Chief Commercial Officer **(OW)**
	Jeff Smyth	Group Chief Information Officer **(JS)** (Item 3.)
	Gareth Clark	IT Change and Transformation Portfolio Director **(GC)** (Item 3.)
	Zdravko Mladenov	McKinsey **(ZM)** (Item 3.)
	Julie Thomas	Operations Director **(JT)** (Item 4.)
	Gregg Braden	Programme Manager, Branch Hub **(GB)** (Item 4.)
	Martin Kearsley	Director of Banking Services **(MK)** (Item 5.)
	Wendy Luczywo	Head of ATM, Banking Services **(WL)** (Item 5.)
	Elinor Hull	Chief Operating Officer, Digital Identity **(EH)** (Item 6.)
	Mark Siviter	Managing Director Mails **(MS)** (Item 7.)
	Tom Wasilewski	Head of Commercial Development, Mails and Retail **(TW)** (Item 7.)

Action

1. Welcome and Conflicts of Interest

A quorum being present, the Chairman opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

2. Introduction

Nick Read introduced the strategy day and the four topics that would be discussed including Fujitsu/ Horizon and SPM, Branch Hub, Cash and Banking and the Mails and PUDO Strategy.

The first session would consider the relationship with Fujitsu, the contract and risks, the Horizon system and SPM. We needed to understand whether we had the capability to execute our chosen approach and why this would to be different to the abortive attempt to move the system to IBM. We needed to consider how we were going to involve Postmasters.

We needed to consider our Strategic Framework and get away from being all things to all people all of the time which was driving too much complexity. Our Strategic Plan had three main elements: 1) Re-setting and fixing the past, which included the separation of the historical GLO issues 2) Building the foundations for POL, which required clarity on remuneration and the engagement and involvement of Postmasters. We needed to get the balance right and develop as a B2B2C business. We had a number of very large clients and

[1] Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chairman's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

they were critical to securing our future. 3) Creating a self-sustaining future commercial business, which meant getting the network right, re-shaping our cost structure and transforming the IT structure which was the single biggest risk in our organisation. We wanted to create a commercially sustainable organisation, understanding our proposition and being entirely focussed on that and looking at the remainder of our product set with a view to creating arm's length relationships with other vendors rather than over integrating. We needed to leverage the trust that was associated with the Post Office brand.

We would set out our immediate-term, short-term, and near-term plans and this was what the Board should be holding us to account to deliver and which we would bring this back to the Board quarterly.

Dan Zinner outlined the change funding forecast over the next period. Carla Stent noted that it would be helpful to understand this from a benefits perspective. DZ noted that over the next 18 months, re-sizing the organisation and franchising the DMBs would bring the greatest benefits and this was broadly within our control. Tim Parker noted that management was about prioritising the changes required and this would shift over time so the feedback mechanism to the Board would be important. In practice, it would be possible to deliver some elements of the plan quicker, while others would take longer.

3. SPM/FJ contract exit

Jeff Smyth provided the context for the discussions and the proposed approach to discuss Fujitsu, the relationship, existing contract and options and then the requirements for modernisation. The relationship with Fujitsu was difficult and we knew that the contract negotiations would be hard. We already had a platform with CDC (Accenture) and we would expect Accenture to be one of the bidders in a procurement for SPM. We would need SPM and other options rather than SPM on its own, but we needed to decide which elements we flowed into SPM and which we kept on Horizon. We could not be completely free of Fujitsu's preferences and approach.

A number of questions and points were raised, including:
- Ken McCall asked whether we had the capability to execute SPM by 2023 and how modular the system would be, in both structure and process
- Tom Cooper asked whether it was viable to keep running the Horizon system for 10 years. Carla Stent added that this might be something we could accept for the next 3-4 years but the tolerance might be different for a 10 year timeframe and we needed to understand how much of a "burning platform" this was
- Tim Parker wanted the Board to have a better understanding of timescale, costs and risks, including our proposed approach to a new partner for SPM. Ideally, we would have a system that we could run at lower cost and over which we had more control. Jeff Smyth explained that the costs would not reduce for the legacy Horizon system. Fujitsu were strong contract negotiators and an alternative partner would want waivers around system performance and the litigation, and we would be charged for any efficiencies required (e.g. making ineffective staff redundant). JS added that the contract in place was reasonable but did not anticipate us needing to change our services. TP noted that under the Fujitsu contract we were committed to a certain spend and under a new regime we could resolve these issues. Al Cameron thought that we would need a new partner on board by the Spring of 2021 to achieve a reduction in our risk of having no viable alternative to using the current supplier; this meant we needed to complete Belfast Exit promptly. Gareth Clark added that we needed to make running the legacy IT system as attractive as possible and that meant having first completed developments such as the move to the cloud. Lisa Harrington noted that we should also start committing to end of service dates for particular products; we should provide a simplification commitment and stick to it

POST OFFICE

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

- Zdravko Mladenov explained that old technology was costly to run. Taking products into a new cloud based technology began to reduce the costs. Around 80% of the core revenue generators could be taken out of Horizon by March 2023, leaving a small "tail" of product services that were cheaper to run. Tim Parker asked how this would look for the Postmaster and whether it would require them to have two devices. Jeff Smyth confirmed that there would be two devices. We had studied other providers' approach and to avoid rolling out another generation of HNGA devices we would develop an android device and remove these licence costs. The new terminal would progressively add new functionality alongside Horizon. Ken McCall noted that the Board would need to understand the "tail" of the Horizon system and the implications of removing or migrating this and which elements were high risk
- Lisa Harrington noted that migration by March 2023 was a huge task. Jeff Smyth explained that the Horizon technology was 21 years old, it was a monolithic system with different iterations over time and with various integration points. Elements had been bolted on, such as SSKs and Pay stations. Digital journeys were not possible on Horizon which was not a customer focussed system
- Al Cameron asked whether there was anything to indicate that migrating to a new system in five years' time would be an easier process than starting today. Lisa Harrington thought not, but legacy systems tended to overcomplicate matters
- Tim Parker thought it important that we let the system developers have more say than the system clients to avoid overcomplicating matters and would be interested in whether there were any off-the-shelf options. Lisa Harrington noted that the developers and product people were largely interchangeable these days and that the design and build was more iterative and agile
- Ken McCall asked whether particular parts of the business caused complications from an IT perspective
- Al Cameron asked about the branch accounting position, noting that there was not much reference in the GLO to serving customers. Jeff Smyth noted that the GLO was largely about branch accounting where we had improved some processes, rather than customers' journeys. Over the next three months, we would need to understand the co-existence of SPM and Horizon. We did not think Fujitsu would have an appetite to amend the change cycle and optically it was less than ideal to remain on Horizon for the next 10 years. Lisa Harrington noted that problems were more likely to arise where we had new products and code rather than moving existing products like Postal Orders onto the new system
- Ken McCall thought that operating a hybrid system could be difficult if we had a truculent partner. Lisa Harrington explained that in practice we were already operating a hybrid system but that this would be extended as we began to move onto a new system. We had to manage multiple integration relationships today and were already on a journey to have a more integrated system. Jeff Smyth added that we had looked at four options initially but moving completely to a new system by 2023 was not feasible. Moving in-house entirely crystallised the TUPE risks, as would engaging a new provider for the new system. There was a risk that if we are not viewed as a key partner, we would not get the best staff or service. We were left with two options of extending the contract with Fujitsu beyond 2023 or finding a new provider. It we sought to extend the contract with Fujitsu we had to understand what we were prepared to offer to achieve this
- Carla Stent asked what the pay-back period would be for moving legacy products onto SPM and whether it would be better to stay on the Horizon system for such products. Jeff Smyth explained that we had to buy the code from Fujitsu in either case. Tim Parker requested to see the simplified financials, including the steady state costs for running Horizon post Belfast Exit. Jeff Smyth noted that we estimated IRRELEVANT steady state costs up to 2023 and then a re-negotiated position post 2023. We were overly

POST OFFICE

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

dependent on Fujitsu and so there were some benefits associated with having a different partner, knowing that we would not have had time to move everything off Horizon by March 2023. Lisa Harrington noted that it was possible that we could end up with the same partner for SPM and the legacy Horizon system but that some smaller providers were only likely to want to provide the SPM service. We needed to develop good internal capabilities and contract management skills

- Carla Stent asked how we would handle branch accounting in the future. Jeff Smyth explained that branch accounting was functional from an integrity perspective but did not offer the features one would expect from a modern system, such as showing Postmaster remuneration. JS added that we would have to update the HNGA estate over the next five years. CS noted that it was important that we avoided any "double bubble" costs so needed to be clear on which system any upgraded hardware would operate. Tom Cooper noted that it was essential that the branch accounting review was concluded and that we could be certain that it was fit for purpose. This work could not be back-ended
- Jeff Smyth explained that we would like to identify a partner organisation that could take on the legacy Horizon system. That would provide us with a "Plan B" and leverage for the discussions with Fujitsu on Horizon. We would simplify the system through exiting the Belfast data centres and obtaining PCI compliance. In parallel we would increase our internal capabilities. We would provide assurance to Board that we had the means to execute the proposed strategy
- Ken McCall asked whether all of the existing 108 products on Horizon brought value. Carla Stent added that we should only be moving across the revenue generating items. Al Cameron noted that all of the products generated revenue and some were contractual obligations. Owen Woodley noted that a complete understanding of this had to play into the RMG contract discussions
- Jeff Smyth explained that we would need co-operation from Fujitsu to achieve the move to the cloud successfully and to keep the legacy system running. We wanted to avoid building integration into legacy bill pay providers and understand the future direction of the bill payment market
- Zarin Patel thought that we needed to understand the critical decision points. We needed to understand our "unknowns" in the technical systems. We needed to understand if we could get the people we needed to deliver the technology we needed. Jeff Smyth noted that we would begin to understand the infrastructure elements of the system better as part of the Belfast exit plan. Identifying a partner and going through the procurement process would also help us understand the SPM system requirements better. Lisa Harrington noted that coding and gaps in coding could cause problems when migrating systems so a phased approach made sense. Course correction would be required because we did not know everything about the Horizon system currently and thorough testing would be required
- Zarin Patel asked whether the figures in the Funding Plan flowed from the process described. JS reported that we had done some costings based on experience and the team requirements
- Tom Cooper thought we needed to consider our case against Fujitsu. Jeff Smyth noted that this needed to be considered in the context of our ongoing relationship with Fujitsu as a provider but we did not currently think it likely that they would be a long-term partner and they did not appear to want to be
- Lisa Harrington requested that Board Directors be invited to join some of the agile sprints for the project to gain insight into the process. Jeff Smyth noted that there might also be some "war-gaming" to test ideas such as a ten year option for maintaining a legacy Horizon system. Tim Parker noted that this was an issue for management to work through tactically **Action:** Jeff Smyth/ Gareth Clark

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

- Ken McCall asked what other Government relationships Fujitsu had. Gareth Clark confirmed that Fujitsu had a number of Government contracts and we could find out who the Crown Representative was for Fujitsu.

The Chairman summarised the conclusions from the discussions:
- presently we did not think we had a better option for the longer term than exiting the contract with Fujitsu in March 2023
- we wanted to be able to leverage our negotiating position with Fujitsu by identifying credible alternative providers
- we needed to set out the critical decisions, timelines and the "no regret" decisions **Action:** Jeff Smyth/ Gareth Clark
- we should develop SPM alongside the Horizon legacy system.

4. Branch Hub (demonstration and funding approval)

The Board discussed the funds requested for the ongoing development of Branch Hub. Carla Stent asked about the split of the IRRELEVANT and Tim Parker asked what the return on the investment was. Carla Stent asked how we would realise the benefits associated with Branch Hub and what these were, noting that she would have expected to see a stronger business case. Julie Thomas explained that most of the IRRELEVANT were Covid-19 related. Branch Hub was primarily a critical enabler and IRRELEVANT of the costs were to fund redundancies for 33 FTE back office staff. The next pieces of development were to digitise the back office processes that would enable staff efficiencies. Many of the Service Now components were off the shelf so we could continue to add functionality to Branch Hub. The run costs were IRRELEVANT a month and would allow us to continue to develop Branch Hub and discover the bigger benefits. We would come back to the Board to explain what we had delivered and how this would be embedded. It was a good project incrementally because the costs were largely associated with automating work which would help us reduce our back office costs and the costs attached to those redundancies. Branch Hub would provide better support for Postmasters.

Lisa Harrington noted that we needed to increase registration with Branch Hub and Postmaster engagement through this channel. Operating more than one system increased costs. Tim Parker agreed that we should have a plan for improving registration and Ken McCall noted that this should be one of the targets for area managers. **Action:** Julie Thomas/ Gregg Braden

The Board:
- **APPROVED** funding of IRRELEVANT for Branch Hub subject to providing a clearer cost breakdown, including the spend rate, and the business case for the Board in September 2020 **Action:** Julie Thomas/ Gregg Braden
- **DELEGATED AUTHORITY** to the executive Investment Committee, to approve the final phase in November 2020 based on the progress made.

Dan Zinner would take Carla Stent through the business case, the sunk costs and the spend rate. **Action:** Dan Zinner

The Board received a presentation on the Branch Hub system, including stock ordering.

The Chairman thanked the team for the work that had been done to develop Branch Hub, particularly during Covid-19.

5. Cash and Banking

5.1 Cash and Banking Services (Banking Framework 3)

Owen Woodley introduced the presentation and noted that conversations had been taking place with the banks at a senior level and that Post Office had met with Natalie Ceeney who was leading the Access to Cash programme. Barclays in particular remained upset about the pricing increases in BF2 but still needed Post Office's services. We would need a clear

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

economic analysis as we moved into the BF3 negotiations. A critical decision point had been reached on the ATM strategy because of the stage of our arrangement with the Bank of Ireland. We still thought there was a good case to remain in ATMs.

Martin Kearsley provided an overview of the current position in the cash market. POL's transactions had decreased to 51% in lockdown but had returned to circa 80% of previous levels with just over 100% of the previous levels for deposits as we had acquired some customers unable to access their banks. We serviced almost IRRELEVANT customers, but some IRRELEVANT that had not used POL prior to Covid-19 had begun use our services. The majority of customers had found POL services as good or better than their bank, therefore we thought we should be able to retain some of the new customers. We were beginning to be a key service provider for those wishing to make deposits.

The paper set out the direct profit contribution (DPC) resulting from each of the three scenarios mapped. Al Cameron noted that the DPC from BF3 would be critical.

Martin Kearsley reported that there had been a number of issues raised by the banks which we would address in BF3, IRRELEVANT IRRELEVANT Al Cameron added that we were IRRELEVANT IRRELEVANT.

A number of points were raised, including:

- Tom Cooper asked whether we needed to require the banks to carry out know your customer (KYC) checks more thoroughly to avoid the security risk of money laundering. Martin Kearsley explained that POL was acting as a channel only and we wanted Postmasters to process the transaction. Where Postmasters had a concern, this should be raised through the suspicious activity report (SAR) process
- Tim Parker asked how we could help the banks use us more post Covid-19 without overstepping the mark on competition. Al Cameron noted that Ben Foat would be considering any proposals from a competition perspective. Nick Read reported that HSBC (who used to have c.1300 branches before restructuring) now operated c.600 and that during COVID had struggled to maintain the availability of that estate. Covid-19 had provided the opportunity for POL to meet more customers' basic banking needs. We were engaged in Natalie Ceeney's Access to Cash work and were considering what a branching hub might look like involving POL, Barclays and HSBC. Owen Woodley added that the regulator had been urging the banks to collaborate to find banking hub solutions
- Al Cameron noted that we could provide a IRRELEVANT IRRELEVANT IRRELEVANT
- Ken McCall asked whether we could design an option IRRELEVANT IRRELEVANT straight away. Al Cameron thought that we could consider this for IRRELEVANT where there was more competition and where we were less competitive. Martin Kearsley added that if we could bring our IRRELEVANT to one more akin to an ATM charge the IRRELEVANT through Post Office; that could have an important impact and there was an argument for taking this step sooner rather than later. POL had the expertise in this market and many retailers were not keen on IRRELEVANT Tim Parker noted that this was IRRELEVANT for POL currently and asked whether we had the right resources and expertise to proceed and capture the opportunity. Tom Cooper thought we needed to commission an economic analysis of the banks' position. Martin Kearsley added that we needed to market our deposit services. **Action:** Owen Woodley/

Martin Kearsley provided an overview of the Community Access to Cash pilots which included the Hay-on-Wye automation pilot. In all cases where there was a pilot the local PO

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

branch appeared unable to cope with the increased demands of the local community now that capacity (from closing bank branches) had been reduced, and we would be engaging with each one to make improvements to enable them to offer broader support. Martin Kearsley

We were developing the business cases to deploy behind the counter cash automation. Some trials had taken place with the Co-op.

The second automation option was automated deposit machinery in a public self-service area. This could be beneficial in between 400 and 500 branches across the network. We were also discussing setting up 250 hubs in IRRELEVANT

Carla Stent asked whether there were alternative models where space was an issue. Martin Kearsley confirmed that there were small models, but we were only likely to introduce counter cash automation where high volumes of cash were being handled in branch. IRRELEVANT branches dealt with IRRELEVANT in the network. Al Cameron noted that that costs of full automation were very high.

Ken McCall asked how much investment spend was included in the Funding Plan for Banking and Cash. Martin Kearsley explain that IRRELEVANT was included but significant capex spend was avoided because the machines would be leased by Postmasters.

Board **NOTED**:

- the bank concerns after BF2 commercial challenges
- the BF3 key commercial levers and options to address the banks' concerns
- the implications of emerging industry Access to Cash programmes and associated automation
- the update on Cash Automation proofs of concept and linkage to industry pilot schemes.

The Board **APPROVED** the recommendation to release the final Banking Framework 3 (BF3) pricing no later than 30th June 2021 rather than 31st December 2020.

The Chairman thanked the team for the work they had done through Covid-19 to support customers' access to cash.

5.2 ATM 'Exit or Remain' strategy

Martin Kearsley introduced the paper and noted that we needed to improve customer experience in branch and part of this linked to automation. We wanted our business customers to be able to withdraw or deposit their cash quickly and that meant we would need to retain ATMs as well as augment with automated deposits where appropriate. The returns on exit and remain showed a stronger case to retain ATMs. We had reached a critical point in our discussions with the Bank of Ireland where we would start to reduce our benefits if we delayed making a decision. POL ATM transactions had dropped to 57% during lockdown but we were now running about 80% of pre-Covid-19 levels. In a reduced cash market, more ATMs would become chargeable and that would put pressure on the interchange charges. Our footfall had grown by 4% last year against a market decline of 12%.

We had modelled different scenarios and considered a number of options, including exiting the ATM market. No IAD had said they wanted to take over our estate and IADs would shut ATMs without reference to the retailer. That left us with exit or remain options.

Martin Kearsley described the remain strategy, the £16.4m investment requirements, the return on investment and some potential efficiencies in supply chain requirements.

A number of points were raised, including:

- Al Cameron noted that we would have to invest in integration with Horizon and Martin Kearsley added that the significant requirement to improve the back end systems was covered in the business case. IRRELEVANT

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

IRRELEVANT

IRRELEVANT Remming in was a separate process. Wendy Luczywo explained that in future we would be relying on the data provided by the third party rather than the data in Horizon. Tom Cooper was concerned about having two reconciliations into different systems. WL explained that we would know exactly what was being withdrawn from the ATM every day. TC noted that the issue remained that the Postmaster would be relying on the Horizon data. Al Cameron advised that we would need to build a controls process around this as we did with cash. This could not be avoided without a fully automated system which also created problems as well as the costs entailed. Daily reconciliations that balanced were now up to about 90%. Reconciliations had to be completed by a particular time each day

- Tom Cooper noted that the logic of these numbers appeared to be that we should be running more ATMs. Martin Kearsley explained that we had already removed about 300 low footfall devices and had built a model with some flexibility so that if the economics worked, we could increase our estate. The model would also allow us to look at branches which did not have an ATM and add one where this was profitable.

The Board **APPROVED** the proposal and strategy to remain in ATMs and **DELEGATED AUTHORITY** to the Group Executive to approve proceeding to contract signature for the preferred suppliers on completion of the procurement-driven OJEU selection process undertaken during 2019.

6. Digital Identity

Owen Woodley introduced the topic and noted that as part of the Purpose, Strategy and Growth (PSG) work we had decided that we would seek a partner to bring a B2C proposition to life in Digital Identity but would not make a significant investment ourselves. A Request for Information (RFI) had been taking place. The two potential providers had raised a number of questions as part of their due diligence and we would be addressing these.

Elinor Hull provided an overview of the POL opportunity in Digital Identity. A IRRELEVANT profit return was estimated over the next five years with some potential upsides. POL had a brand leadership position in an emerging market, but Identity was not a short-term play. McKinsey had estimated a market of circa IRRELEVANT per annum.

The drivers for the digital identity market and the impact of this were set out, including that the different systems of verification and multiple passwords that operated currently translated for business into customer drop-offs. Consumer trust was also an issue. We needed trust to meet convenience and for the system to be re-usable. There were also customers who risked being excluded from digital identity services because they did not hold documents such as passports and driving licences which were the norm for online processes. This group of customers often overlapped with our own.

POL had started its digital identity provision through Verify, the system used by Government, but this contract ends in September 2021. Government was not fully aligned in what it wanted to happen next but had learnt that the system needed to be more customer centric and usable across the public and private sectors. The Cabinet Office was working on a new framework for standards. Digital identity providers would have to meet this standard and Government Departments would then be able to select from this framework of providers. POL therefore needed to be able to meet these standards, but we could not be reliant on Government being the central arc of our income.

The proposition set out envisaged POL becoming a "one-stop shop" for digital identity. This meant a service that moved from being transactional to being reusable. Providing online verification and in-branch verification set us apart from other providers. It was also noted that in some of the regulated industries there was a need for a face-to-face interaction.

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

We had set our requirements from a partner. The identity industry was broad, but we had analysed over 50 companies, looking at those with a UK relevance and evaluated them against five key investment areas (ability to invest, speed to market, value alignment etc.). We had shortlisted the top five potential partners. This was narrowed down to three but as IRRELEVANT was only interested in a licencing arrangement to accelerate entry into the market, we had ruled this partnership out. We had worked with IRRELEVANT and Yoti to develop business plans. EH described the history of Yoti and IRRELEVANT their risk profiles, the approach we would take to setting up a joint venture and a comparison of the potential deals. Following our analysis, the preferred partner was IRRELEVANT but some further work was required.

A number of points were raised, including:

- Tom Cooper agreed that the Yoti looked IRRELEVANT but was IRRELEVANT with so many elements that we would need to get right
- Tim Parker thought that we needed to understand how the end of the Verify contract would play out and that while IRRELEVANT could prove to be the right partner for us but the current proposition was IRRELEVANT If IRRELEVANT was reluctant to entertain a proper partnership they were IRRELEVANT If we proceeded with a partnership, we would need to make sure that the right protections were in place. Carla Stent added that we would need to acquire a good part of the market share to make the venture worthwhile and if IRRELEVANT could not come to the market quickly enough we should be wary. Tom Cooper thought the return figures seemed limited and our equity was diluted. Lisa Harrington thought that the proposals were not compelling and this might in part be because the market was not sufficiently established
- Tom Cooper advised that Shareholder approval would be required for a joint venture because it would be a change in corporate structure. There could also be reputational risks in such a venture because the joint venture would continue to use the Post Office brand.

The Chairman summarised the position which was that more work needed to be done to determine whether partnering with IRRELEVANT If the deal was not good enough, we should not proceed.

7. Mails including PUDO Strategy

Al Cameron advised that the PUDO figures would be circulated to the Board offline because it had not yet been possible for the finance team to verify these.

Mark Siviter provided an overview of the Royal Mail Group (RMG) contract and history. POL had only become truly independent from RMG in January 2020 at which point we were no longer bound by an exclusive deal. We could not be complacent because, especially post-Covid-19, the mails market position had altered, and there were many risks, including the review of the Universal Service Obligation (USO). Our key aims were to:

- secure a deal with RMG for the long-term and mitigate the risks arising from issues such as stamps reconciliation
- agree and execute our PUDO strategy where there were multiple partnership opportunities
- retain the flexibility to have a digital channel for customers.

Increasing our share in the PUDO market had emerged at the strongest of the strategic options considered and we would seek to bring in other partners. Working with Amazon was the right entry strategy for us and RMG also had agreements with Amazon, though this amounted to less than 10% of its total parcels revenue.

Tom Wasilewski described our PUDO ambition, where we wanted to increase our market share from 26% to 41%, and the reasons we believed we could succeed in this market. The

POST OFFICE

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

PUDO market was large and rapidly growing but relatively immature. We were IRRELEVANT IRRELEVANT IRRELEVANT We had an opportunity to introduce a different pricing model. There was generally a single rate in place at the moment, but we were considering a three-dimensional pricing model linked to geography, client and service. Our working assumption was that we IRRELEVANT

A number of points and questions were raised, including:

- What would drive RMG to accelerate a move online? It was reported that RMG required around £200m per annum to operate and were a cash strapped business. We had to recognise that they might seek to shift online at some point during the contract period, especially if they were losing customers. Tim Parker noted that another risk was that the customer decided to start their journey online which could be with any provider, but this also provided an opportunity for us as the RMG deal was no longer exclusive
- Ken McCall asked what our relationship with Amazon would be in the long-term if they only needed us for a limited range of things like our presence in rural areas through our branch network
- Tim Parker asked whether a customer could only take, for example, a My Hermes parcel into a Post Office if they had bought the label online. Tom Wasilewski explained that Post Office was the only place that allowed the customer to complete almost all transactions instore. The advantage of undeliverables was that the Post Office might be very close to a customer's home. It provided the interface between the digital and physical journey. Operationally and commercially pick up was easier than drop off, and we had a lower market share here so we wanted to focus on this service first. Carla Stent asked whether only offering a pick up only service initially would be confusing for the consumer market. TW thought that pick-up was distinct from other services and this was generally understood by customers. CS thought we needed to understand how consumers would be signposted, how quickly we could move to a drop-off model and how quickly we would be able to move to being able to provide a complete journey for customers
- Tim Parker asked how important Post Office was for RMG from a volume and profit margin perspective for parcels. How much RMG parcel business did not go through Post Office? What gross margin contribution did RMG get from Post Office? It was reported that there was a very low average unit price for most parcel providers. POL had a IRRELEVANT IRRELEVANT Al Cameron noted that Post Office was critical to RMG as it was one of the few places where they made a profit. TP noted that we needed to understand how much Post Office mattered to RMG's business operations and how much margin we delivered. IRRELEVANT IRRELEVANT
- Tim Parker noted that we could be encouraging migration to other providers (e.g. you could buy another provider's label online and bring the parcel into a Post Office) which could undermine RMG's dominant position that in part supported Post Office's. Lisa Harrington thought that we would have to take this approach or lose that business to other players in the market. We needed to have a very strong offering of parcel shops. Mark Siviter added that there was likely to be market consolidation post Covid-19. We needed to be a more substantial player with wider options. Al Cameron noted that we had to consider whether the RMG's business was sustainable and that it might not be possible to resolve its current difficulties without tackling its labour position which could lead to industrial action
- Ken McCall asked what resources we needed to deliver the strategy, including how much we would need to invest in technology, branding, online development and people. Al Cameron noted that we would like the capability to be able to sell RMG products online but would not fund this. KM would like the Board to see an implementation plan

Action: Mark Siviter to produce an

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POST OFFICE

POST OFFICE LIMITED BOARD MEETING (Strategy Session 2)

- Tim Parker wanted to understand how a hub would operate, for example, there had to be an ability to hold stock. Ken McCall added that needed to cover technology, resource, cost structure and ease of use
- Tom Cooper asked whether there was there was enough remuneration in PUDO transactions to make it attractive to Postmasters. Ken McCall thought there was a market here but we needed to keep driving the cost base down. The boundaries of the market might change, for example, with greater focus on environmental issues but it was better to be in the market and be able to shape it from within. Tim Parker added that the pricing model, pricing transactions and the ability to make the PUDO strategy attractive to us and to Postmasters plus the ability to introduce a new pricing model were the main concerns. We needed to understand what this meant for POL and how it linked into the network strategy and IT requirements
- Zarin Patel asked about our estimated time to get to market and whether and how the market might have changed by that point. Mark Siviter believed the opportunity would still exist by the time we got to market but there were some key dependencies, including our structure and resources internally. We needed to have a dialogue with the network and invest in product ownership but there should still be a high contribution per head opportunity and our Postmasters were enthusiastic.

implementation plan which addresses the points raised by the Board.

8. Wrap up session

Tim Parker thought that the strategy discussions had been useful and had set out where we wanted to go directionally and enabled a deeper understanding of the issues. The Board was broadly supportive of the strategy on PUDO, BF3 and the work on the network. The decision had been taken to continue operating an ATM estate. Digital Identity and whether there was a real opportunity here required further work. More clarity was needed on optionality with Fujitsu. The RMG deal had been discussed. We still needed to settle our approach to the insurance business. Final recommendations would come back to the Board on these issues later in the year.

The Non-Executive Directors had found the pre-briefings for the strategy sessions useful. Ken McCall added that the presentations had tended to be better than the decks and it had been good to have some of the external consultants attending to support the sessions. Lisa Harrington noted that it would be good to hear how the team had felt about the discussions as well as we did not want to leave any issues unresolved.

9. Any Other Business

Al Cameron reported that UKGI had advised that they now expected our final Funding Plan to be submitted before the end of August 2020 although we would not have received the final KPMG assurance work by that point.

There being no other business, the Chairman declared the meeting closed at 4.45 pm.

GRO

Chairman 02/11/2020 16:56