Post Office Limited – Strictly Confidential

POLB 15(4th)
POLB 15/64 – 15/67

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

Minutes of an Extraordinary Board meeting held at 4:00pm on Thursday 2 July 2015 at 20 Finsbury Street, London EC2Y 9AQ and by telephone conference

Present:

Alice Perkins	Chairman
Richard Callard	Non-Executive Director (by telephone)
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director (by telephone)
Virginia Holmes	Non-Executive Director (by telephone)
Alasdair Marnoch	Non-Executive Director (by telephone)
Neil McCausland	Non-Executive Director (by telephone)
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
Lesley Sewell	Chief Information Officer
Neil Wilkinson	Separation Programme Manager
Lesley Sewell	Chief Information Officer
Jas Virdee	
Kevin Seller	Head of Government Innovations Programme

Apologies:

POLB 15/64 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting.

POLB 15/65 **FUJITSU CONTRACT EXTENSION**

(a) Alisdair Cameron spoke to the submitted paper. He explained that the Board was being asked to approve an option to extend the existing Fujitsu Horizon contract as contingency against delays in the establishment of new Front Office services, protecting continuity of operational service for the Company.

(b) He reported that the Front Office programme was due to complete at the end of March 2017, at the same time that Fujitsu's contract to support Horizon was coming to an end. IBM, Computacenter and Verizon had been appointed as the Company's key technology partners, with the design phase underway. The scale and complexity of the project was such however that the team could not be confident that the project would finish on time. The concern was that not only was the project reliant upon third party delivery, but that the Company also had to roll out the new equipment and software across all of its branches. Any suggestion that branch

POL00027310

accounting was not right would, given the Sparrow sensitivities, cause the project to slow down.

(c) On 21 May 2015 the Board declined to agree a one year extension at a value of £62m before re-evaluating all available options and exploring whether any additional approaches might be available. The purpose of the present meeting was to consider those options and in particular:

- a view of the Fujitsu contingency;
- the phased capital expenditure investment plan for Fujitsu;
- the governance for releasing the spend;
- clarification of the Fujitsu contract and the legal position;
- possible further incentivisation of IBM to help minimise the Fujitsu costs; and
- the timeline when decisions had to be made, taking into consideration the Telco contract negotiations.

(d) Alisdair Cameron advised:

- there had been further negotiation with Fujitsu, the result of which was the maximum potential spend had been reduced to £57m, £24m of capital, £33m of run costs. The minimum spend was £6.5m.
- There had been an extensive joint review of the required capital investment resulting in an agreed slower schedule of spend which would enables continuity of service in the Belfast datacentres to March 2018. The revised schedule was set out within the paper.
- The actual spend would be determined by the date the Company decided whether to terminate the option. For example, if the Company was sufficiently confident by June 2016 that it could exit on time, the cost would be £22.5m.
- The maximum spend assumed a full year of running to March 2018. If even more time was needed, in theory a further limited extension could then be negotiated. However, the back-up datacentre was due to be demolished in September 2018.

(e) It was also NOTED that full capital provision of £45m spend had been assumed in the Three Year Plan, comprising including six months of additional run costs, between April 2017 and September 2017.

(f) In respect of governance, the Board was advised

- The Front Office Steering Group would continue to explore options to reduce the capital investment, with an aim to cancel the refresh and extension by June 2016, therefore targeting a maximum spend of £22.5m;
- Spend would be approved by the CFO and the CEO in 3 month stages and an update provided to the Board in October 2015.

(g) Internal and external legal teams had confirmed that Fujitsu had an obligation to act and negotiate reasonably in agreeing the contents of the exit strategy leading to an orderly and efficient transfer of

POL00027310

responsibilities and services to the next supplier. These obligations did not compel Fujitsu to extend the contract beyond the contractual end date. An exit manager was working with Fujitsu to ensure these contractual obligations were met.

(h) Discussions regarding incentivisation had led to Fujitsu requesting £17m for effectively goodwill, which was not considered good value for money and which was not recommended. Dialogue was ongoing with IBM regarding incentivising them to ensure the programme was delivered on time. It was however too early to conclude such discussions and such incentivisation would be reconsidered when a better view on the delivery timeline was available on completion of the design phase in September 2015.

(i) Telephony contract extension was arguably more urgent, with both Fujitsu and the Company having a shared need to replace Capita, a key provider of services under the contract. Contractually that replacement could be achieved now, because of the poor service provided by Capita but that situation may not persist and Fujitsu would not go through the replacement process without the longer contract period under discussion. It was unclear whether Fujitsu would agree the IT extension without the opportunity provided by a new telephony contract. The Board was advised the contract extension could be delayed to some future date that would bring contractual and financial risk.

(j) In relation to risk, the Board was advised:
That each risk retained 'Controlled' status and was within the Technology and Operations risk appetite of Adverse.
- Failure to fully transition to the new Front Office solution by March 2017 may result in a delay in benefits realisation and significant additional Fujitsu cost being incurred to maintain continuity of service. (Operational Risk / Financial risk – Controlled);
- Failure to deliver within the three-year transformation window may have significant ramifications to the wider business transformation, and require major funding outside the existing cost envelope. (Operational / Financial risk – Controlled);
- Operational continuity of service may be put at risk through adverse influence from failure in relations with Fujitsu, or behaviours of Fujitsu. (Operational risk – Controlled).

(k) The conclusion was that having undertaken the review requested by the Board on 21 May 2015, the programme team continued to believe that to proceed without a contract extension option presented an unacceptable level of risk. On the basis that the Company would minimise the cost of the proposed option and that any spend would be approved by the CEO and the CFO, the Board was asked to approve a one year option to extend the existing Fujitsu Horizon contract at a maximum investment of £57m: £33m of operating costs and £24m of capital.

POLB 15/66 **RESOLUTION**

POL00027310

(a) Having listened carefully to all of the arguments for and against the proposed extension the Board took the view it was in the best interests of the Company to agree the proposed option to extend the Fujitsu contract as submitted AND RESOLVED:

- To approve an option to extend the existing Fujitsu Horizon contract as contingency against delays in the establishment of new Front Office services;
- The maximum investment in the option to extend should be £57m, comprising £33m of operating costs and £24m of capital;
- That the CFO and/or CEO be authorised to take all actions and do such things as were required to conclude the option agreement with Fujitsu on the terms recommended;
- That the CFO and/or CEO be responsible for approving spend in three monthly periods under the terms of the option and provide update reports to the Board on the same three monthly cycle.

POLB 15/67 **ANY OTHER BUSINESS**

There being no further business the Chairman declared the meeting closed.

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Chairman **Date**