

Post Office Limited – Strictly Confidential

POLB 15 (Extraordinary Meeting 2)
POLB 15/66 – 15/68

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)
Neil McCausland	Non-Executive Director (by telephone)
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
David Hussey	Transformation Director
Lesley Sewell	Chief Information Officer

Apologies:

Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director

POLB 15/66

INTRODUCTION

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

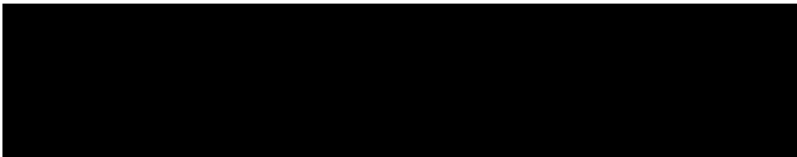
POLB 15/67

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 believed a contingency was necessary in case the project did not 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 11500 branches. The Business was changing the end to end way it did business and with the experience of Sparrow sensitivities it needed to be positive that

Post Office Limited – Strictly Confidential

the new systems were robust before rolling out.

- (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;
 - the possible further incentivisation of IBM to help minimise the Fujitsu costs.
- (d) Alisdair Cameron advised that:
- 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 being £6.5m;
 - there had been an extensive joint review of the required capital investment resulting in an agreed slower schedule of spend which would enable 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.
- (e) Alisdair Cameron explained that by June 2016 the rollout should have been completed in at least 1000 branches with the new system in place for at least one month end accounting period. This should give the business a good understanding as to whether the IBM system was working and reduce the need for the Fujitsu contingency. The Board recognised that the reputational damage of wholesale network failure and supported the need to test the system in the live environment on this scale.
- (f) The Board recognised the importance of this decision and asked the Business to set clear success criteria for the rollout programme to give confidence that the delivery was working before the FJ contract could be terminated.
- (g) In respect of governance, the Board was advised that the CFO and/or the CEO would be responsible for approving spend in three monthly periods and reporting that spend to the Board.
- (h) 

ACTION:
CFO

Post Office Limited – Strictly Confidential

- [REDACTED]
- (i) 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 action would be reconsidered when a better view on the delivery timeline was available on completion of the design phase in September 2015.
 - (j) 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.
 - (k) Having listened carefully to all of the arguments for and against the proposed extension the Board reluctantly 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;
 - There would be another Board decision at a check point in June 2016 with the aim of capping expenditure at around £25m and another in December 2016 with expenditure around £30m;
 - 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.
 - (l) The Board acknowledging the importance of hitting the June and December 2016 deadlines in order to minimise expenditure and asked for close monitoring of the costs with reports to the Board every quarter.
 - (m) It was agreed that risk status for technology and operations should be changed from Controlled to Managed and the risk appetite remained at Averse.

Post Office Limited – Strictly Confidential

POLB 15/68

ANY OTHER BUSINESS

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

Alice Perkins

Chairman

Date