

Memo

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To:
Note to File

From:
David Mills

CC:
Alan Barrie
Peter Corbett

Date: 07.08.02

Meeting with Richard Christou, Chief Executive, Fujitsu

Richard Christou called today ostensibly to make my acquaintance but actually to complain about our treatment of Fujitsu concerning their contract and lay out his negotiating position. He made the following points:

- 1 He had personally been involved in re-engineering the Horizon contract with the Post Office after the DHSS withdrawal.
- 2 His predecessor had been removed because of the fiasco and he had been appointed because of his success.
- 3 He therefore had a deep personal interest in Horizon and had ensured that we had their best developers at all times and that within their overall portfolio our system was given preference.
- 4 He acknowledged that it was expensive and over-engineered but stated that it was fully meeting the specification and gave us a 100% 'lights on' position.
- 5 He said that the contract in effect only gave them a £5million profit and that Fujitsu would make more money (£11million) if we serve notice upon them now.

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- 6 Fujitsu were upset that we had gone out to market test and they did not believe that in the time available or with the information to hand that we would be able to get a sensible response on which to base a judgement.
- 7 He would not give us an open book position when faced with such a competitive situation.
- 8 He referred to conversations with John Roberts when they had discussed how the contract could be revamped by bringing in the outsourcing of back office processing to them. I asked if he meant Chesterfield and he replied in the affirmative.
- 9 He also stated that he could give up-front benefit if in the longer term we engineered to reduce costs which we could then share.
- 10 He thought the process of negotiation was going too slowly and I reassured that in any event I would be forced to terminate negotiations if this were to be the case.

I then in turn made the following points to Christou:

- 1 The Post Office is insolvement and loss making and my mandate is to make it profitable. To do this I have to make an early impact on both income and costs which means reviewing the cost line.
- 2 Out IT expenditure is too high a percentage of non-interest expenditure and must be brought back to 15%.
- 3 The Post Office's cash burn affects Consignia's liquidity and must be reduced.
- 4 I was open minded on the market test but I have no desire to move from Fujitsu. This would only be driven by a commercial imperative.

Christou concluded by implying that our negotiations with them were far too adversarial and we needed to step back and try and create a win win situation. In turn I thought this was difficult whilst everyone was dancing round the handbags, and we would need to work hard during the coming weeks to reach a mutually acceptable conclusion.

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Christou said that he might need to contact me personally during or at the end of this period but that we would leave our teams to continue to negotiate.

Whilst we parted amicably, he will not have been happy with my rather tight-lipped response to him.