

PAYZONE BILL PAYMENTS LIMITED
(the "Company")

Minutes of a Board meeting held on Thursday 19th January 2023 at 11:00 in Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ

Present:	
Owen Woodley	Group Chief Commercial Officer, Post Office (Chair) (OW)
Andrew Goddard	Managing Director, Payzone (AG)
Max Jacobi	Finance Director – Commercial, Post Office (MJ)
In Attendance:	
██████████	██████████, Post Office ██████████
██████████	██████████ Post Office* ██████████
██████████	██████████, Payzone ██████████
██████████	██████████, Payzone* ██████████
Apologies:	N/A

22/37 **WELCOME & CONFLICTS OF INTEREST** **ACTION:**

The Chair welcomed everyone to the meeting and confirmed that the meeting was quorate. ██████ and ██████ joined the meeting via conference call. No new conflicts of interest were declared.

22/38 **MINUTES**

The minutes of the meeting held on 5th October 2022, which had been circulated previously, were approved and were to be signed electronically by the Chair.

22/39 **MATTERS ARISING AND ACTIONS LIST**

The actions list from the previous Board meeting, which had been circulated previously, was noted. The following updates were provided:

Action 1 (Minute PZBPLB 21/45 (a)): AG explained that Payzone Bill Payments Limited (PZBPL) employees felt that they were being held back from receiving salary increases. Nevertheless, employee benefits had improved as a result of PZBPL being attached to the Post Office Group and their salary increases had been accrued however, they could not yet be released to PZBPL employees. AG thought that pressure would be felt at the helpdesk level where salaries were low. Nevertheless, PZBPL were awaiting the outcome of Post Office Limited (POL) negotiations. This action remained open.

Action 2 (Minute PZBPLB 22/20(b)): OW asked ██████ to ensure that a board effectiveness review was conducted in advance of the next Board meeting. This action remained open.

Action 3 (Minute PZBPLB 22/21(a3)): AG said that some of the Key Performance Indicators (KPIs) were included in the Board meeting pack. OW thought that the Board should reflect on whether there was anything to learn regarding oversight. OW suggested that ██████ bring a recommendation if possible before the next Board meeting. This action remained open.

Action 4 (Minute PZBPLB 22/21(b2)): AG advised that this action regarding the Post Office Group Modern Slavery Statement had been completed. ██████

further explained that PZBPL would no longer ask the Board for any more Post Office Group policy approvals as PZBPL were already working with POL to review the policies when they were up for renewal. Accordingly, this action was closed.

Action 5 (Minute PZBPLB 22/23): [REDACTED]

22/40

BUSINESS UPDATE INCORPORATING

(a) Q3 Performance Review

■ introduced this item and gave the Board a synopsis of PZBPL's trading performance.

Regarding revenue, PZBPL had a great performance in Q3 which was largely driven by Payout. Furthermore, PZBPL had issued out £4.6m energy Payouts to customers and a further £1.5m cash Payout. ■ also commented that ND's team had been doing an amazing job of keeping up with the pace of the business that PZBPL had been winning. Nevertheless, all of the Payout revenue was recognised in POL, whereas energy revenue was split across PZBPL and POL.

Moreover, by the end of the financial year, PZBPL expected to process approximately 11 million energy credits. Energy had a really big start when there were energy price increases however, energy volume had declined in Q3. ■ stated that energy would finish at the end of the financial year close to approximately £40m revenue against budgeted £26.9m.

■ thought that PZBPL's results were good however, focusing from a PZBPL perspective, he was concerned that the relationship, brand, and scale regarding energy clients worked well for POL but a lot of the impact on PZBPL was not great. [REDACTED]

Furthermore, AG thought PZBPL would not have won the client contracts such as ■ without the POL network. The scale of the business meant PZBPL could secure more volume away from the competitors. [REDACTED]

■ stated that clients saw the POL network and the PZBPL network as one network. Moreover, PZBPL's profit and loss (P&L) was flat against negatives in cards and transport, which were impacted by the recession, the cost of living crisis, industrial action and strikes. The strikes and the COVID-19 pandemic had stifled transport, and the development of PZBPL's terminal platform had stifled growth in cards.

■ reminded the Board that PZBPL had put some plans together in August 2022 to further address PZBPL's financial viability. ■ explained that he tried to highlight some of the challenges in running PZBPL in the meeting pack. Regarding Drop & Collect (D&C) for example, PZBPL knew that it would be making a loss however going into the next financial year, PZBPL wanted to expand. At this time, PZBPL were not seeing the volume in D&C as expected.

He thought that the D&C sites might get up to 60% on the business case. ■ also made a point regarding POL & PZBPL splitting D&C and PZBPL recovering VAT. Moreover, looking at the budget and some of the price rises, this put PZBPL on a footing to curb some of its challenges.

[REDACTED]

[REDACTED]

Furthermore, PZBPL were 15% ahead of target with PayzonePlus+ installations. Regarding the D&C piece, there were 145 installations. ■ informed the Board that the plan was for PZBPL buy terminals in April 2023 however, because PZBPL was selling the terminals quickly, PZBPL had to bring those orders forward. OW asked if PZBPL would hit a Capital Expenditure (CAPEX) capacity issue as a result of the demand for terminals. ■ said that PZBPL had the CAPEX but that the next CAPEX spend was in July 2023. Nevertheless, PZBPL had to bring this July CAPEX forward.

In terms of revenue versus the prior year, PZBPL were broadly flat at approximately -£70,000. MJ asked if the merchant fees were up year on year because it was driven by extra sales. ■ explained that PZBPL made approximately £200,000 a year from sales and this annualised by another £200,000 therefore, this totalled £400,000 as a result of the last financial year's results going into this financial year's results. AG added that regarding the card acquiring piece, PZBPL had the opportunity to upsell.

Moreover, ■ was interested to see for an average D&C site, how much Postmasters would save between rental and card acceptance. He gave an example of PZBPL articulating to clients that if they replace their PayPoint device with a PZBPL device, they will save 'X' per year. AG explained that PZBPL had articulated a number of things to clients - for instance, there were some lending opportunities as PZBPL could lend its future receivables off card transactions. Additionally, there were a number of things in the pipeline however AG was not in a position to bring it forward to the Board as a proposition. In response to ■ example, ■ stated that this was how the telesales team sold the cards and he added that PZBPL used a lot of its resources to benefit POL but did not get recognised. ■ also reiterated AG's point about realigning PZBPL's resources for efficiency.

[REDACTED]

[REDACTED]

In respect of the PZBPL terminal price increases, [REDACTED] said that this was the biggest change since PZBPL went live with the [REDACTED] contract. [REDACTED] thought that PZBPL were operationally ready however, PZBPL would not know the extent as to how operationally ready the company was until the price increases were executed. Nevertheless, the price increases would help support PZBPL's budget for the next financial year. [REDACTED] added that there would be an extra £600k revenue that dropped down to profit. OW asked if there was a way of testing this to give an empirical view as to what the churn would be. [REDACTED] replied that there was not really a way of getting a view as to the churn however PZBPL had looked at the list of retailers and their importance to the network. PZBPL had to come out with a clear de-risk message in its plan.

MJ asked if PZBPL had been selling its devices 99p/week for a while and in response AG explained that PZBPL had legacy devices (E200/E200T) that clients had been paying 99p/week for. If retailers wanted to keep the same device, they could, however the price of the device would go up to £2.99/week. MJ asked if PZBPL had statistics on sales rates overtime as to when PZBPL were selling at different prices. OW said that it was known that people were willing to pay 99p/week for the legacy device. Moreover, the 99p/week price was determined about 10 years ago. Also, this year, PZBPL were 15% ahead of plan on device sales because of [REDACTED]

OW asked [REDACTED] to talk about the justification of the price increase to £2.99/week and how much of PZBPL's communications focus was on selling. [REDACTED] said to OW and MJ that he would send them the communications plan. The communications plan was more so to do with a change of terms of conditions. Furthermore, [REDACTED] remarked that if PZBPL did not lead with a positive but honest message, this would attract negative press coverage.

AG summarised the different options for the PZBPL devices. If clients wanted to keep the 99p/week legacy device, the price would increase to £2.99/week. There was also a £4.99/week option and a £7.99/week option. OW queried what PZBPL would do if people wanted newer devices but there were not enough. AG stated that PZBPL would explain the unprecedented demand to retailers.

OW said that he may take the PZBPL price increases piece to the POL Group Executive (GE). Nevertheless, PZBPL could decide when the best date to go live was, being cognisant of everything that was happening in the market.

As such, the Board **DISCUSSED** the Q3 Performance Review.

(b) Review of Key Performance Indicators

[REDACTED] introduced this item and highlighted PZBPL's non-financial KPI's in particular. His update for the Board was that PZBPL was in a good and steady position with its KPIs. PZBPL had changed the picture around some of its service levels and despite a lean team, and with PZBPL supporting D&C, PZBPL were doing a good job.

OW questioned if the set of KPIs presented was the right set. He also pointed out that there was no churn metric. AG explained that there was a bigger list of KPIs that PZBPL senior management reviewed weekly. Some of the KPIs that

were being reviewed included: engineering break fix, credit, and failed direct debits.

OW asked [REDACTED] to bring the full set of KPIs to the next Board meeting so that the Board could agree on the key things that needed to be reviewed. [REDACTED]

As such, the Board **DISCUSSED** the PZBPL's KPIs.

22/41 **FUTURE MEETING DATES**

[REDACTED] said that she would send email to the Board and attendees to inform them of the Board meeting dates for the 2023/24 financial year.

22/42 **ANY OTHER BUSINESS**

(a)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(b) PZBPL's Integration into POL

The potential integration of PZBPL into POL, was discussed at a recent POL GE meeting. OW said that at the GE meeting, the debate was a disagreement with the principle, the benefits, and the need to integrate PZBPL into POL. There was also a debate at the GE meeting on the previous procurement approach. OW's view was that the procurement issues would not get easier if POL and PZBPL were to defer the integration. Nevertheless, the integration was agreed in principle and would go to the POL Board for consideration and approval and then to the Department for Business, Energy & Industrial Strategy for a decision.

■ expected there to be a lot of interest in the integration at Board level. She questioned whether not presenting the business case at the POL Board meeting would result in more questions from the POL Board. OW said that he had offered to attend the POL Board meeting in case there was debate. MJ suggested that PZBPL offer an offline briefing with the POL Board members if they had questions.

OW said that he would keep the PZBPL Board updated on the integration work.

(c)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(d) Contracts

■ noted that he had sent an email to the Board to provide some clarity on the contracts that needed Board approval. Regarding the contract with Prism Logistic Solutions (PLS), ■ said that he would circulate the details to the Board for approval via correspondence and that it would be ideal if PZBPL could get this contract approved.

In respect of the Vodafone contract, PZBPL and Vodafone were still working on the strategy with servers.

OW asked if there were any other contracts coming up that may raise questions as to what would happen if PZBPL and POL were to integrate. ■ explained that this was part of the procurement strategy that would be put together as part of the integration work.

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NEXT BOARD MEETING

(a) The Board noted that the date of the next ordinary meeting would be confirmed by ■ offline.

(b) There being no further business the meeting closed at 12:23.

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Chair

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Date