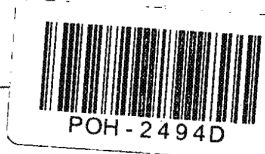


Blewett Myles

From: Jones David M [David.JonesM@GRO]
Sent: 15 May 2006 16:40
To: TRIGGS, Jeff
Cc: keith.k.baines; GRO; 'ian.o'driscoll'; GRO; Blewett Myles; Lenton-Smith Colin; Rowley Peter; Jones Rachel; Williams Sarah (London); Monaghan Iain
Subject: HNG-X Conditionality
Importance: High

Jeff,

Thank you for your email and for clarification of Post Office's position.

There are clearly several aspects to discuss tomorrow but we thought it would be helpful to set out Fujitsu's initial thoughts to allow reflection before the meeting.

Fujitsu agrees that it is both parties interests to progress as soon as possible to signing a new arrangement. Given the constraints around funding Fujitsu proposes we proceed as follows:

1. Fujitsu needs to have some certainty that the confidence shown in resolving this issue will result in an unconditional extended contract within a reasonable time.
2. On that basis it seems that the new agreement should contain a right for Post Office to give notice prior to 31st December 2006 to extend the revised contract to 2015 and bring in the full changes to HNG-X. It will be for the Post Office to make its own decisions around whether it has sufficient certainty around future funding and we would not propose imposing any objective test.
3. We would however expect that the Post Office would accept an obligation to use reasonable endeavours to secure funding to enable it to be in a position to give notice. *- would not want a legal obligation here for FS to sue.*
4. In default of such notice the contract terms would revert and the contract would end in 2010.
5. We will need to agree which terms of the new arrangements come into immediate effect, which are dependent on the notice and or which revert on failure to give the notice.
6. In general terms:
 - a) We would introduce the service changes to the mobile engineering and help desk services as planned, and these would remain and not reverse out. Sensible changes to improve the way we work together such as revised Governance should apply anyway;
 - b) We assume you will want to continue the changes planned to router deployment and the changes to Data Centre. *Router Deployment yes; Data Centre what is most sensible. Generally desirable - option*
 - c) Changes such as those to IPR, partial Termination and Market Testing would depend on the notice being given and would not come into effect until then;
 - d) The MTBF HNG-X risk allocation would come into effect on signature but be reversed out in the event of notice not being given and the existing provisions reinstated retrospectively.
7. In the event that notice is not given then the ongoing charges will revert in general terms to those in the current agreement. Post Office would need to make a one off financial adjustment to put Fujitsu back into the position it would have been in had the old contract been in place.

15/05/2006

G-X Conditionality

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8. This means:

a) Fujitsu shall be entitled to also retain the charges payable for development of the HNG-X solution. These development costs would include the associated capital costs to be incurred in this period on initial Data Centre set up etc.

b) Fujitsu shall be entitled to stand down costs on the basis set out in CT450.

c) Post Office having put its right to benchmark on hold Fujitsu would not expect Post Office to immediately benchmark if notice to extend is not given. In return for the flexibility shown by Fujitsu around the funding arrangements Post Office will waive any rights to benchmark in the first 6 months of 2007.

d) As previously envisaged Fujitsu will provide Open Book information to enable the Post Office to validate the initial charges in the agreement but full Open Book rights will depend on the notice being given and the contract extended.

Best wishes

 David

David M Jones, Head of Legal
UK Commercial Business Unit

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