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Mr. M. Young  
Post Office Ltd  
148 Old Street  
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Dear Mike,

**HNG-X Re-Baseline**

Further to your call with Peter Rowley last week, we undertook to come back to you this week with a proposal on how we could address the additional internal costs that POL may incur as a result of the current HNG-X Re-scheduling. As Peter has previously stated, Fujitsu stands by its commitments to provide compensation in respect of the reasonable and justifiable costs incurred by you which arise directly as a result of Fujitsu's actions under this re-scheduling.

Mark Burley has given us some very high level estimates of your internal costs as a result of the re-baseline and we have yet to see the details behind the estimates. On the basis of what we have seen so far, it seems high and it is unclear on some of the elements how non-Fujitsu factors have been assessed. For example December seems to have been treated as a full month, the role of Joint Testing team is unclear and we are unsure how you have treated existing committed costs – all areas we consider are not entirely attributable to Fujitsu.

As you can appreciate, we need to apply a similar level of rigour to the POL plans, mitigation actions, cost details and subsequent audit provisions as POL apply to Fujitsu under the contract. As soon as we receive the appropriate information from your team, we can start the evaluation process so that we arrive at an understanding of the level of the issue and can then formulate and agree a proposal in respect of how POL is compensated. I suggest that we diarise some meetings between us to keep track of this process.

We were also requested to consider what mechanisms might be applicable in the event of any further re-scheduling of the HNG-X programme. I hope you are re-assured that we are doing everything that we can to ensure that this does not become necessary and therefore such consideration is nugatory but, assuming the worst happens, it would be sensible to be prepared in the event that it is required.

In the event that any further re-scheduling becomes necessary, that exposure clearly falls into FY 10/11 and we consider that this would be dealt with by a pre-agreed level of damages (liquidated damages). We would propose that these liquidated damages would be applied as a discount against the development rates applied to HNG-X future developments (R2+) in that year (subject to an



appropriate limit on the reduction). Equally, we feel it makes sense to pre-agree the impact of any re-scheduling arising as a result of POL causes, which we would also suggest should be compensated for in the 2010/2011 financial year in a manner to be agreed.

I hope that the broad proposals set out above are acceptable in principle; clearly there are different options to how we can manage this situation and we are happy to discuss other alternatives if elements of the above are not workable. On the basis that the above are acceptable in principle we would propose that meetings be set up to progress the assessment of the amounts in question as soon as possible.

Yours sincerely,  
For and on behalf of  
Fujitsu Services Ltd

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