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Post Office Director briefing pack

Summary of material contracts

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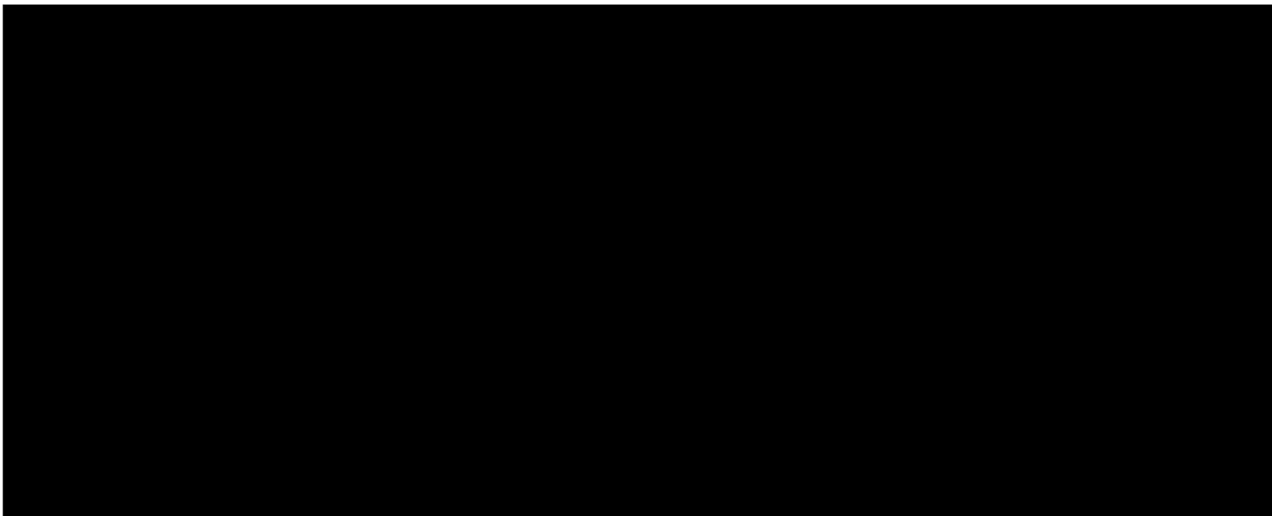
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INTRODUCTION

The purpose of this document is to provide a general overview of the top material contractual agreements, across the Financial Services, Retail and IT and Telecoms business areas, between Post Office Limited (**POL**) and its partner counterparties/suppliers. This is to help you in the discharge of your duties as a POL director. Each of the summaries contained in this pack provide an overview of the contract and a summary of the key terms, risks and issues. Further detail is available at any time from the Legal Department and we would be pleased to provide you with a full briefing on any matter, as may be required.

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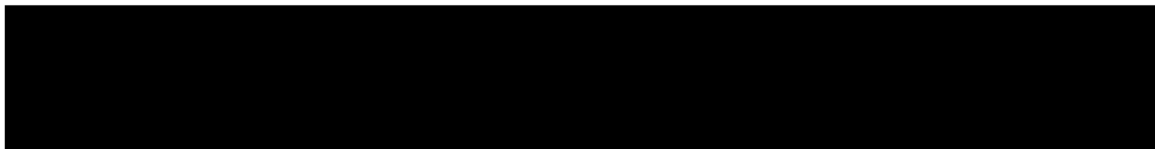
FINANCIAL SERVICES



APPOINTED REPRESENTATIVE AGREEMENT – POST OFFICE AND BOI

OVERVIEW

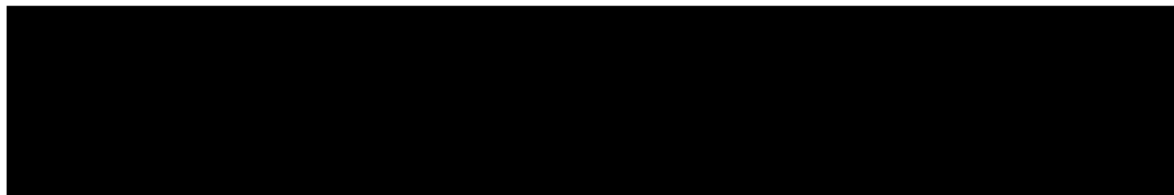
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KEY TERMS, RISKS AND ISSUES

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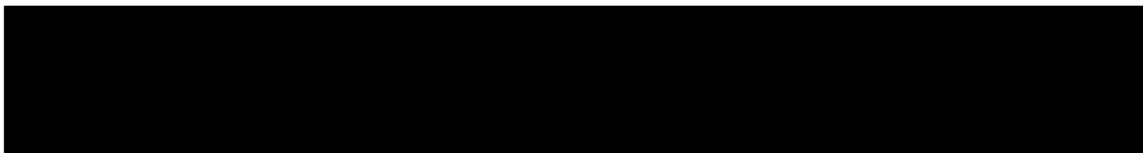
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APPOINTED REPRESENTATIVE AGREEMENT – POMS AND POST OFFICE

OVERVIEW

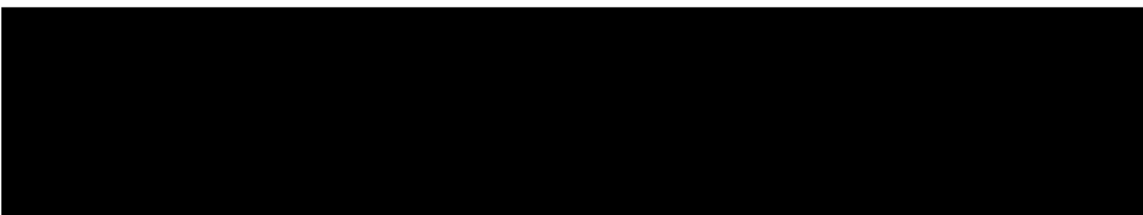
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KEY TERMS, RISKS AND ISSUES

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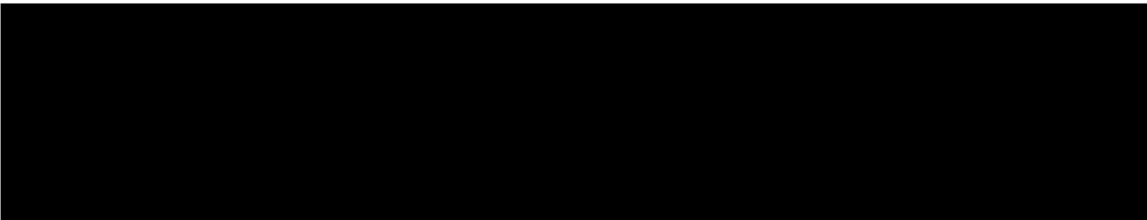
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FINANCIAL SERVICES JOINT VENTURE AGREEMENT (FSJVA) - POST OFFICE, BOI, MIDASGRANGE LIMITED AND BOI PERSONAL FINANCE LIMITED

OVERVIEW

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KEY TERMS, RISKS AND ISSUES

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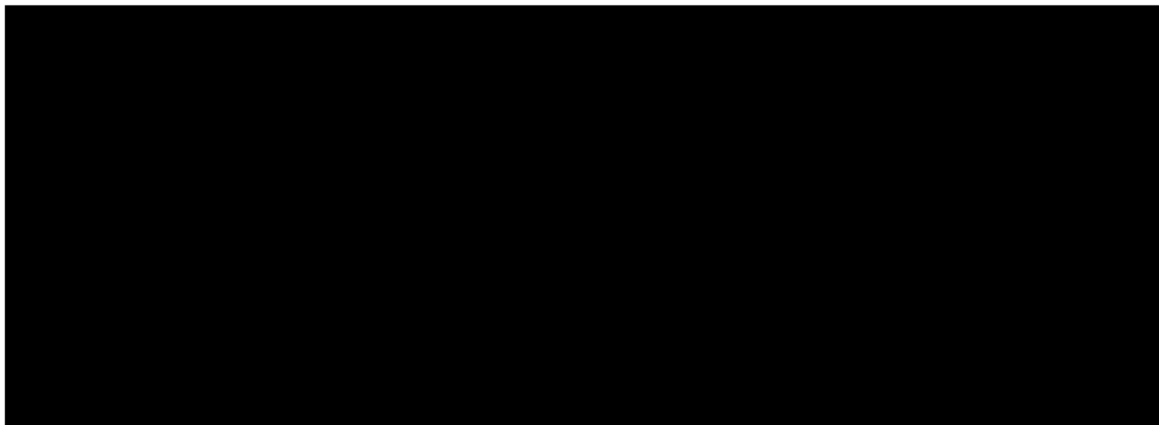
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JOINT VENTURE AGREEMENT – POST OFFICE, BOI AND FIRST RATE EXCHANGE SERVICES

OVERVIEW

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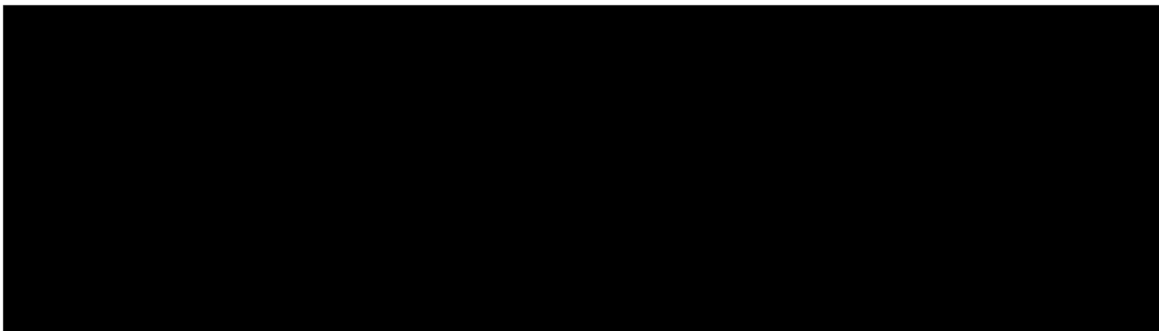
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RETAIL

POST OFFICE CARD ACCOUNT ("POCA")

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POL AND RMG MAILS DISTRIBUTION AGREEMENT

OVERVIEW

1.



KEY TERMS, RISKS AND ISSUES

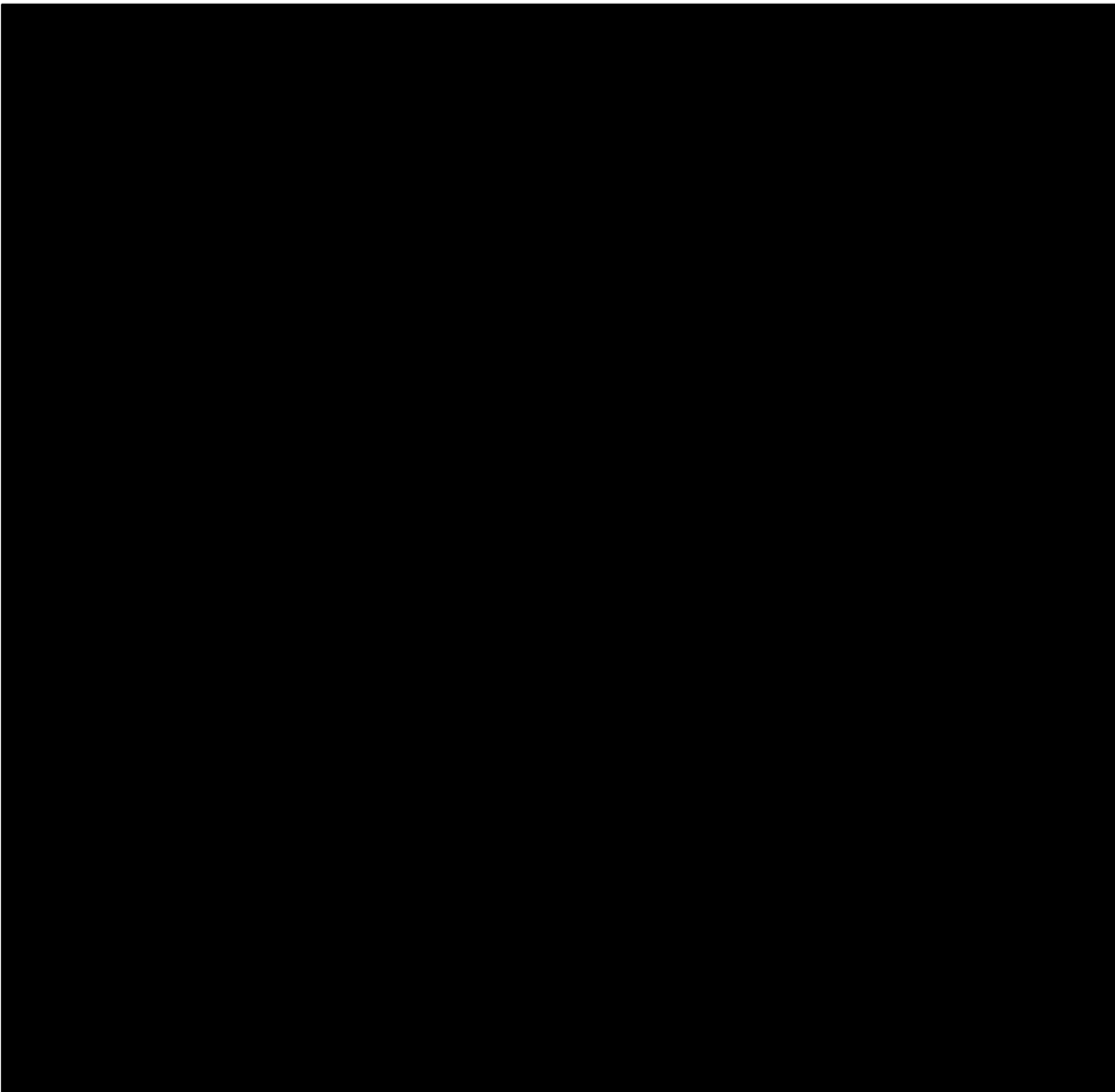
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IT AND TELECOMS**POST OFFICE IT**

When Post Office was part of the Royal Mail group (“**RMG**”), much of its IT infrastructure and services were procured for Post Office by RMG as part of a RMG group-wide IT service provision. Some particular components of Post Office’s current IT infrastructure (e.g. the Fujitsu Horizon system) were procured and contracted directly by Post Office itself. In the lead up to Post Office’s separation steps were taken by Post Office to procure its own standalone core IT infrastructure and services. Post Office elected to implement a SIAM model (Service Integrator and Application Management). This resulted in the procurement of what are termed the ‘IT Towers’ via OJEU competitive dialogue processes conducted between 2012 and 2016.

In addition to the IT Towers Agreements and the Fujitsu Horizon Agreement, Post Office also has an agreement with Accenture for the provision of a common digital platform by Accenture (“**CDP Agreement**”), which is currently in the process of being re-procured for a short period of up to 2 1/2 years. This is to keep service running ‘as is’ and enable Post Office time to develop a comprehensive strategy for its customer facing digital platform and services. The common digital platform is effectively the Post Office customer facing website and portals and the service includes hosting, development, support and maintenance. The CDP Agreement sits outside of the Towers eco-system, however the SISD service does provide certain limited services in respect of the CDP Service such as CDP service issue management via the SISD IT helpdesk.

Post Office has numerous agreements with other IT suppliers for provision of a variety of services and infrastructure which often do not fit directly within the Towers eco-system but which can impact upon it (e.g. Ingenico for provision and maintenance of PIN entry and Paystation devices on branch counters or NCR for provision and maintenance of the self-service kiosks (SSK’s) in branch, which is another agreement that will shortly be re-procured). As per the CDP Agreement, the SISD service will provide some limited service cover for these key third party services. The business spends approximately £100m per annum on IT and our Group CIO’s IT strategy aims to make better use of that spend to focus more on digital services and agile service development, as well as reducing overall spend.

Our key IT suppliers are invariably operating and maintaining business critical IT infrastructure and services for Post Office, the failure of which at any time can either immediately or in a relatively short space of time have a very detrimental impact on our normal business operations (e.g. if the Horizon system goes down then branches cannot process Post Office transactions for customers). In light of the business criticality, IT supplier performance and IT strategy issues come up for discussion at Board relatively frequently.

ATOS - SISD TOWER AGREEMENT**OVERVIEW**

1. Post Office and Atos IT Services UK Limited (“**Atos**”) entered into the SISD Agreement on 26 September 2013 for various services to enable the management, co-ordination and streamlining of the service providers of the four IT Towers plus certain other IT suppliers. This Agreement is for an initial term of four years with two optional 12 month extensions, exercisable at Post Office’s sole discretion.
2. Annual spend varies depending on project work undertaken in any given year, but recent spend has been approximately £15m (ex VAT), split £7m on BAU opex costs and £8m on projects.

*Legally Privileged And Confidential***KEY TERMS, RISKS AND ISSUES**

1. There are a number of termination rights for both parties, however only Post Office can terminate for convenience at any time. No specific notice period is required but the amount of notice given affects the termination payments due. The payments will cover: (i) Termination payment; (ii) Unrecovered costs; (iii) Breakage costs; and (iv) Compensation payment (if less than 6 months' notice of termination is provided by Post Office).
2. Atos was given exclusivity in relation to the following services: Change Management services; Incident Management services; Request Fulfilment services; and Access Management services. There are certain exceptions to such exclusivity including where Post Office believes it would be uneconomical or otherwise not in the best interests of Post Office or its customers. There are no minimum revenue or volume guarantees.
3. The scope of the SISD Agreement was reduced in September 2017 under Project Armada. Certain services were terminated which were not required and Post Office took back control of aspects of change management and supplier chain management from Atos. The business have made a decision in principle to extend the term of the SISD Agreement, but on a further reduced scope of services. No extension notice has been served as yet. Post Office IT is currently working with Atos its options and has the appetite to take back some further SISD services in-house.
4. Atos have been under a lot of scrutiny over the last twelve months due to them having a relatively poor perception within the business on their service performance and also a desire on the part of our Group CIO to take back in-house some service scope performed by Atos. This resulted in Project Armada discussed above. Atos' performance and the value for money of the service they deliver will continue to be a key focus for our IT department.

COMPUTACENTER - EUC TOWER AGREEMENT**OVERVIEW**

1. Post Office and Computacenter (UK) Limited ("**Computacenter**") entered into the Agreement on 29 October 2014. This Agreement is for an initial term of four years with two optional 12 month extensions (the first of these extensions Post Office has already exercised as part of a commercial renegotiation of existing terms in 2017).
2. Annual spend varies depending on project work undertaken in any given year, but recent spend has been approximately £14m (ex VAT) on BAU opex costs and up to £1m on projects (although a current one off BCR project is ongoing which is expected to cost £7m over two years).

KEY TERMS, RISKS AND ISSUES

3. There are a number of termination rights for both parties, however only Post Office can terminate for convenience at any time. No specific notice period is required but the amount of notice given affects the termination payments due. The payments will cover: (i) Unrecovered costs; (ii) Breakage costs; and (iii) Compensation payment.
4. Computacenter is granted exclusivity in relation to: (a) take on and running of the existing branch counter hardware (i.e. Horizon terminals and associated peripherals), (b) replacement and running of the new branch counter hardware (i.e. replacements to the existing Horizon terminals), (c) replacement and running of the admin hardware (i.e. laptops, desktops and peripherals), (d) replacement and running of the print services and (e) implementation relating to the services set out in (a) to (d). Exclusivity is subject to Computacenter's compliance with its obligations and adequate scores on customer satisfaction surveys (although criteria around this have not been prescribed) and on volumes only up to a certain threshold. Furthermore, exclusivity is only granted once a service has been accepted so that Computacenter does not obtain exclusivity for the

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provision of that service during implementation. Post Office may also revoke the Contractor's right to exclusivity in certain circumstances.

5. The EUC Agreement contains a minimum revenue commitment (MRC) of £70 million over the Initial Term. If Post Office has not achieved its minimum revenue commitment by expiry of the 4 year Initial Term, or where there is termination by the Contractor for non-payment by Post Office, or by Post Office for convenience, then Post Office is liable to pay any shortfall between what it has achieved by way of total spend on Charges and the £70m Minimum Revenue Commitment. The Legal team has had confirmation from IT that as of January 2018, this MRC target has been met.

ACCENTURE - BACK OFFICE TOWER AGREEMENT**OVERVIEW**

1. Post Office and Accenture (UK) Limited ("**Accenture**") entered into Agreement on 2 February 2016 for an Initial term of seven years, with two optional 12 month extensions, for the supply of back office related services, including operational management of applications, development (design, build and testing) of applications, application maintenance, administration, back up and support and hosting and infrastructure support (the "**Back Office Agreement**"). Support maintenance and hosting of our existing POLSAP and Credence systems are included in the scope of this service.
2. Annual spend varies depending on project work undertaken in any given year. For FY17/18, £2.91m (ex VAT) has been budgeted for BAU costs and £8.64m on projects.

KEY TERMS, RISKS AND ISSUES

3. There are a number of termination rights, however only Post Office can terminate for convenience at any time. No specific notice period is required but the amount of notice given affects the termination payments due. The payments will cover: (i) Unrecovered costs; (ii) Breakage costs; and (iii) Compensation payment.
4. Accenture has no exclusivity in relation to providing the services and there are no minimum revenue or volume guarantees.
5. During the Back Office procurement process and just prior to our entry into the Back Office Agreement, Post Office elected to de-scope from the procurement five existing back office systems which would otherwise have been transferred to Accenture for it operate and then ultimately transform. These were HR SAP, Brands, Galaxy, Mercia and WCS. This was done because it was expected that the first four would be replaced within twelve months and for WCS there were data residency concerns. Some of these de-scoped system applications, or a transformed replacement to them, may end up being put back into the scope of the Back Office Agreement. For example, our existing HR SAP system is in the process of being phased out and replaced with another SAP product called Success Factors. IT are contracting for third line support services for Success Factors with Accenture under the Back Office Agreement.

FUJITSU – HORIZON AGREEMENT (QUASI FRONT OFFICE TOWER)**OVERVIEW**

1. Post Office has a long-standing relationship with Fujitsu Services Limited ("**Fujitsu**") and its predecessor ICL Pathways Limited for the provision of its front office system known as Horizon, which is used in every Post Office branch and processes and stores all of Post Offices branch transactions. Post Office entered into the Horizon Agreement on 28th of July 1999. This is arguably our most important IT supplier arrangement.
2. Annual spend varies depending on project work undertaken in any given year. For FY17/18 the BAU spend budget is approximately £28.6m (ex VAT) and Legal understands that project spend will likely exceed £30m (ex VAT).

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KEY TERMS, RISKS AND ISSUES

3. It is unclear whether or not the Agreement was competitively procured in a PCR compliant manner as Post Office cannot locate records or evidence which demonstrates what process was actually followed. This of itself causes a residual and ongoing procurement risk. In addition to the hosting, support and development of the Horizon system, various other ancillary services are provided (e.g. hosting services for back office systems such as POLSAP, test rigs, network connectivity to branches) or have previously been provided under the Horizon Agreement.
4. It should be noted that as part of the Towers procurement process, Post Office had contracted IBM as an alternative service provider to Fujitsu and which was to be the Front Office Tower. IBM were to develop and implement a replacement system to Horizon, however this did not progress as Post Office revised its front office strategy for various reasons and ultimately opted to extend its relationship with Fujitsu and terminate its contract with IBM, both in early 2016.
5. The term and scope of services of the Horizon Agreement has been amended on a number of occasions. The current term of the Horizon Agreement, unless terminated earlier in accordance with the provisions of clause 47 or extended in accordance with the provisions of clause 46.2, is for the period 28 July 1999 to 31 March 2023.
6. The parties have been engaged in a strategic renegotiation of the Horizon Agreement since mid-2017. This is referred to as Project Everest and is aimed in part at facilitating a digital transformation of the Horizon system, as well as changing elements of services such as development and the associated charging models (which are largely fixed cost) to make them more variable. This will not result in an overall reduction in the amount Post Office is already contractually committed to spending with Fujitsu to the end of the term. It is a repurposing of that committed expenditure to ensure that it is appropriately expended on modernizing infrastructure and services rather than it being consumed on keeping existing aged infrastructure in operation. Project Everest obtained Board approval in October 2017. The parties are aiming to conclude most the negotiations and contract amendments by the end of May 2018.
7. There has been a sustained lack of investment for a number of years by Post Office in modernization of the existing Horizon infrastructure and this does present a service risk. Many of the hardware and software components of the Horizon system are very old, obsolete and no longer supported by their manufacturers (e.g. certain servers and other components in the Belfast data centre which hosts the Horizon system). To date these components have generally operated very stably and Fujitsu have been able to maintain them, but over time reliability levels could decrease. This service risk is gradually reducing as we now roll out new branch counter hardware and then ultimately when the Horizon system hosting is migrated into Fujitsu's K5 cloud hosting environment as one of the intended outcomes of Project Everest.
8. There are various termination rights accorded to the parties. Only Post Office has the right to terminate the Horizon Agreement for convenience. This can be effected on or after 1 April 2021 by giving Fujitsu not less than twelve months' notice. Such notice may be given before 1 April 2021. In the event of such notice being given, Post Office must on termination pay the Termination Charge calculated in accordance with schedule E. Note, the Termination Charge, calculated in accordance with the Horizon Agreement, is payable even if Post Office terminates for cause. Post Office must also pay a termination licence fee on early termination or expiry of the Horizon Agreement. The amount of the fee varies depending on the effective date the Horizon Agreement comes, from £25m to £10m on a reducing scale towards the natural expiry of the Horizon Agreement. It is very unlikely that Post Office would seek to terminate the Horizon Agreement early as the costs of doing so are very significant and the Horizon system is critical to the operation of the business.

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VERIZON – NETWORK TOWER AGREEMENT

OVERVIEW

1. Post Office and Verizon UK Limited ("**Verizon**") entered into an agreement on 21st May 2015 for the supply of network services (the "**Agreement**") for an Initial term of eight years with two optional 12 month extensions. These services include network connectivity linking all branches and admin sites (both fixed line and WiFi where applicable), as well as network security and an operations center. The service is business critical as it carries all Post Office data traffic, but also ensures the security of that data and our network connected infrastructure from malicious hacking attacks.
2. Annual spend is expected to be approximately £13.7m per annum from FY18/19, once network migration from incumbents to Verizon has been fully completed by end of March 2018.

KEY TERMS, RISKS AND ISSUES

3. There are a number of termination rights. However only Post Office can terminate for convenience at any time. No specific notice period is required but the amount of notice given affects the termination payments due. The payments will cover: (i) Unrecovered costs; (ii) Breakage costs; and (iii) Compensation payment. Furthermore where Post Office terminate for convenience it will be liable to pay any shortfall between what it has achieved as part of its minimum commitment and the required minimum volume commitment (see comment below re minimum commitment).
4. Verizon has no exclusivity in relation to providing the services but Post Office has made a minimum volume commitment during the Initial Term of £44,889,282 (excluding VAT), which is equivalent to 50% of the 6.5 year normalised FMO Service Charges plus the total Completion Payments payable by Post Office as set out in the bidders Pricing Model response.
5. There are some Verizon service performance issues ongoing at present which are getting (e.g. slower than anticipated migration of individual branches to Verizon, poor performing WiFi in Finsbury Dials and ongoing delay in Verizon taking over provision of our corporate mobile phone service which also connects our supply chain vehicles). These issues are being appropriately escalated to and addressed by appropriate senior stakeholders of both parties, so should be resolvable.

POST OFFICE TELECOMS

OVERVIEW

1. Post Office is a provider of fixed line home-phone and broadband services ("**HPBB**") to approximately 507,000 customers. The customer base is currently a mixture of home-phone only subscribers (i.e. customers which have not taken a bundle offering of home-phone and broadband – approximately 252,500 as at January 2018) and bundled subscribers which have taken both telecom services (approximately 154,000 as at January 2018 – there are also approximately 500 customers who are using a broadband only service).
2. The customer base grew by approximately 49,000 customers as a result of an acquisition of the existing customer base of Fuel Broadband which completed over the course of July and August 2017. This was a fixed line home-phone and broadband business owned New Call Limited. This acquisition was referred to as Project Jaguar within Post Office.
3. The Telecoms business is a Post Office branded product which is relatively profitable and the business are currently supportive of it growing further. It is likely that strategic discussions on the future of the Telecoms business will feature on the Board's agenda in FY18/19.

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KEY TERMS, RISKS AND ISSUES

4. Post Office engaged Fujitsu to deliver an end to end HPBB managed operational service enabling Post Office to deliver the HPBB service to customers on limited internal resource. Fujitsu procure network access on Post Office's behalf via TalkTalk, which in turn provision network access from BT's network. Fujitsu provision call centre support via a sub-contractor HGS. Post Office spend approximately £110m (ex VAT) annually with Fujitsu on BAU services and normal project change activities (approximately £2m) under the HPBB Agreement. Exceptional project spend is an additional cost. HPBB generates approximately £150m in gross revenue annually, with approximately £40m in direct profit contribution. Post Office have a very small internal Telecoms team which, broadly speaking, focuses on managing the Fujitsu relationship and service delivery as well as carrying out Post Office's own direct marketing activities to customers and setting future strategy for the HPBB service.
5. The Telecoms business operates in a highly regulated and very competitive market that is price sensitive. The industry regulator OFCOM has become increasingly active recently in carrying out market reviews of supplier practices. One particular OFCOM review last year targeted line rental pricing for the landline only market and focused in particular on BT's pricing. OFCOM found that whilst wholesale line rental pricing had reduced in recent years, retail pricing to this particular consumer base had not. As a result of OFCOM's review, BT agreed to reduce its line rental pricing for landline only customers from April 2018 by £7 per month. This presents a very significant commercial challenge to Post Office as we must adjust our pricing to remain competitive, yet a significant portion of Telecoms profits are generated by our landline only customer base. To protect margin the Telecoms team are undertaking Project Galaxy together with Fujitsu, which aims to move much of the existing landline only customer base onto one of our bundled landline and broadband packages. Customers will be incentivised to take up a bundled offer, but can remain on a landline only package if they choose to.