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SCHEDULE I

UPDATED SERVICE DELIVERY FRAMEWORK

Version History

Version No.	Date	Comments
13.0		Added as per CCN1638, Amended as per CCN1639, CCN1643, CCN1645, CCN1653a
14.0	20/12/2021	Updated as per CCN1667a, CCN1675, CCN1700 and moving all Schedules to v14.0
15.0	22/12/2022	Updated as per CCN1713a

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SCHEDULE I

UPDATED SERVICE DELIVERY FRAMWORK

Schedule I

Updated Service Delivery Framework

The Parties have agreed an updated service delivery framework, as is set forth within the parts of this Schedule I (with each referenced in the format Schedule I[●]). The terms of all such parts of this Schedule I shall apply in accordance with the terms set forth therein.

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Schedule II

Revenue Switch Mechanism

1. OVERVIEW

- 1.1 Paragraph 4.7 of CCN 1600 set out a joint intention of Post Office and Fujitsu Services to evolve the Services under this Agreement to reflect Post Office's changing business requirements and also in line with new technology.
- 1.2 Through a joint initiative, Post Office and Fujitsu Services identified and agreed a number of areas of this Agreement to be updated and Services to be evolved in line with this joint intention, such initiative being referred to as "**Project Everest**". It is intended that such updates and evolution will result in a reduction over the Term in the Operational Charges. In order to implement Project Everest, Fujitsu Services requires Post Office to make certain financial commitments with respect to the committed spend under the Agreement and Post Office has agreed to provide such commitments, as specifically described within this Schedule II (Revenue Switch Mechanism).

2. DEFINITIONS

- 2.1 "**Actual Spend**" means the total amount of spend actually agreed and contracted for between Post Office and Fujitsu Services under this Agreement in respect of:
- 2.1.1 the Operational Services (including HNG-X Test Infrastructure);
 - 2.1.2 the Horizon Software IPR pursuant to Clause 30.19 of the Agreement;
 - 2.1.3 the Core Team;
 - 2.1.4 Trinity 3;
 - 2.1.5 Invest to Save provisions as described in paragraph 17 of Schedule D1; and
 - 2.1.6 any Additional Services (whether under this Agreement or otherwise),
- during the Commitment Period. This shall include: (i) all amounts invoiced and paid under the Agreement; (ii) all amounts invoiced and payable but not yet paid under the Agreement; and (iii) all amounts in respect of which Fujitsu Services is entitled to invoice pursuant to the terms of this Agreement but has not yet done so.
- 2.2 "**Additional Services**" means any combination of any of the following:
- 2.2.1 Committed Development Services;

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- 2.2.2 extensions or changes to current Services within the Term of this Agreement but excluding any extensions or changes or new Services directly related to the current POLSAP Services, and/or Branch Network Services
 - 2.2.3 evolved and updated services introduced as a result of Project Everest;
 - 2.2.4 Programme Spend; and
 - 2.2.5 new Services (whether under this Agreement or otherwise) which Fujitsu Services has chosen to bid for, to the extent awarded to Fujitsu Services and which are performed during the Commitment Period, excluding any extensions or changes or new Services directly related to the current POLSAP Services, and/or Branch Network Services,
- 2.3 **“Committed Development Services”** means any Development Services ordered by Post Office on the basis of a minimum pre-committed spend or capacity in accordance with the processes and principles contained within Schedule I3 (Digital Development Services).
- 2.4 **“Committed Spend”** means committed total spend under this Agreement for:
- 2.4.1 the Operational Services (including HNG-X Test Infrastructure);
 - 2.4.2 the Horizon Software IPR pursuant to Clause 30.19 of the Agreement;
 - 2.4.3 the Core Team
 - 2.4.4 Trinity 3; and
 - 2.4.5 Invest to Save provisions as described in paragraph 17 of Schedule D1,
- in each case during the Commitment Period that would have been payable by Post Office to Fujitsu Services pursuant to this Agreement but for the implementation of Variabilisation.
- 2.5 **“Commitment Period”** means the period starting on 1 April 2017 and ending 31st March 2023.
- 2.6 **“Pivot to Cloud”** means the evolution of the Horizon system services and the underlying infrastructure to the Fujitsu Services K5 cloud based hosting environment. For clarity, Pivot to Cloud is being implemented under two programmes of work, referred to as “Cloud Enablement” (also known as “K5 foundation”) and “Belfast Migration”.
- 2.7 **“Programme Spend”** means all spend relating to Services relating to the following Post Office programmes of work: (i) Solar (including Project Mercury); and (ii) Pivot to Cloud (including costs associated with decommissioning, and remaining payments with respect to the lease charges for Belfast data centres agreed by Post Office within the Belfast Migration project) including all Charges for all CTs relating to the same (whether ordered on a committed basis or time and materials).

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- 2.8 **“Project Mercury”** means the initial iteration of HNGT delivered as part of Solar.
- 2.9 **“Solar”** means the development of a new version of the Horizon application with a Thin Client HTML5 browser driven solution delivered from the Fujitsu Services K5 cloud that is capable of offering Post Office products and services from the Post Office Counters and retail partners.
- 2.10 **“Trinity 3”** refers to the risk and resilience project relating to the data centre asset refresh for the Belfast data centre, as is set forth within paragraph 1.2.2 (b) of Schedule E (Termination and The Exit Plan). For the purposes of assessing Committed Spend, the committed value of Trinity 3 shall be considered to be £7.5m in 2019/20 and £7.5m in 2020/21.
- 2.11 **“Variabilisation”** means the process by which the parties are agreeing changes to the pricing model for the Services to a consumption-based, demand-driven, charging mechanism, including through evolution of the application support, service management and reporting Services to underpin the move to demand driven charges and which will affect the revised technology and to support Post Office’s future business strategy, the framework for which is set out in Schedule I2 (Variabilisation Framework).

3. COMMITMENT

- 3.1 Post Office shall procure from Fujitsu Services Additional Services that can be compliantly awarded to Fujitsu Services such that the Actual Spend during the Commitment Period is no less than the Committed Spend.
- 3.2 The Parties agree that, as at 1 April 2017, the Committed Spend, were the Commitment Period to run from 1 April 2017 until 31 March 2023, is £195.74m and is made up of the figures set out in Annex 3 to this Schedule I1 (Revenue Switch Mechanism), it being understood that: (a) the provisions of the Agreement that operate to vary the Charges comprising the Committed Spend will continue to do so (including, but not limited to, indexation and termination); and (b) in the event that the Commitment Period ends prior to the 31 March 2023, the Committed Spend will be calculated for the shorter period and will also include the Termination Charges calculated in accordance with the Agreement. The parties will monitor and regularly update the Committed Spend in accordance with Annex 1 to this Schedule I1 (Revenue Switch Mechanism) and the final Committed Spend figure shall only be established by the parties at the expiry of the Commitment Period.
- 3.3 Where a CT relates to Committed Development Services, all spend under such CT (whether above or below any commitment therein) shall be included within Actual Spend. In addition, where any such CT is terminated in advance of its anticipated end date (whether any relevant commitment has been met or not), all amounts invoiced and paid under such CT shall be included within Actual Spend.
- 3.4 All Programme Spend from 1 August 2017 onwards shall be included within Actual Spend.

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- 3.5 For the avoidance of doubt, Actual Spend shall not include any amounts relating to any spend agreed and contracted for between Post Office and Fujitsu Services on an ad hoc, time and materials basis, save for where such spend forms part of Programme Spend.
- 3.6 On a six-monthly basis, within the appropriate commercial governance forum, the parties shall review Actual Spend to date and the Committed Spend in accordance with Annex 1 to this Schedule II (Revenue Switch Mechanism). Notwithstanding any such review of Actual Spend, Post Office's success in procuring Additional Services to meet the requirements of paragraph 3.1 shall only be finally assessed at the end of the Commitment Period.
- 3.7 No later than 3 months prior to the start of the final 12-month period of the Commitment Period, Post Office and Fujitsu Services shall meet at an executive level to assess whether Actual Spend is likely to meet Committed Spend by the end of the Committed Period and agree any relevant actions that may be required.
- 3.8 In the event that at the end of the Commitment Period the Actual Spend does not exceed the Committed Spend, the matter shall be escalated between the parties to the appropriate governance forum involving attendees at the most senior level for both Post Office and Fujitsu Services for consideration and agreement as to any relevant actions that may be required to bridge the gap between the Actual Spend and Committed Spend. If following such escalation, no resolution is agreed between the parties within 30 days from the date of such escalation, Fujitsu Services shall have the right to invoice the Post Office for the difference between the Committed Spend and the Actual Spend and the Post Office shall pay that invoiced amount in accordance with the payment timescales set out within Schedule D2 (Ordering, Invoicing and Payment).
- 3.9 There may be circumstances where Fujitsu Services chooses not to bid for a new service (including, but not limited to, where the required service is predominantly for pass-through third party goods or services). To the extent that the parties agree that it would make strategic sense for Fujitsu Services to provide these new services the parties shall, acting reasonably, agree the extent to which the spend on such new services shall be included within Actual Spend. By way of example, this may involve splitting the new services into multiple CTs or service lines to isolate the pass-through costs from spend on Fujitsu Services' resources.

4. WORKED EXAMPLES

- 4.1 Annex 2 contains various worked examples of the operation of this Schedule II (Revenue Switch Mechanism).

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ANNEX 1

Key Principles for Review Process

Part A – Committed Spend Review

1. The Parties agree that the Committed Spend will be reviewed and revised, using the mechanisms in the Agreement, for the purposes of tracking Actual Spend at the end of the Commitment Period against the Committed Spend.

Part B – Tracking Actual Spend and Forecast

1. For the purposes of Paragraph 3.6 of this Schedule II (Revenue Switch Mechanism) the first review shall take place before 31 May, 2018.
2. Each review shall:
 - a. agree the values to be included in the Actual Spend in terms of each of the categories detailed in paragraph 2.2 of this Schedule II (Revenue Switch Mechanism); and
 - b. escalate any unresolved items to the executive governance forum.
3. The parties shall record in the minutes of the executive governance forum the agreed Actual Spend total for each review period.

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ANNEX 2**Worked Examples****Example 1**

In Year X the Committed Spend for the period is £31m including indexation adjustment for BAU and Test Rigs, and £7.5m for Trinity projects. Through Everest the projected spend is as follows:

1. Horizon Agreement for year x has Operational Services (BAU)
 - a. fixed price component of £15m
 - b. variable price estimate of £12m
2. DDS and Core teams has
 - a. Fixed price of £4m
 - b. DDS capacity order for the year is £5m for 100 sprint resource units
3. Belfast Migration spend is forecast to be £5m
4. During the year the DDS through governance the following changes are made
 - a. Capacity reduced and used to 90 sprint resource units
 - b. POL orders 50 days call off consultancy to support as hoc requirements of which 30 days are used
 - c. Changes to Belfast solution which simplifies the migration and reduces spend by £1m
 - d. Additional resources are required from Japan for Belfast Migration and ordered on a time and material (T&M) basis at an estimated cost of £500k.
5. Consumed resource units for the year are
 - a. BAU variable £12.5m
 - b. DDS Resource Units £ 4.5m
 - c. Belfast main contract £ 4.0m
 - d. Belfast Japan £ 0.3m

The annual review would therefore confirm the following:

6. Committed Spend for the year is

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a. BAU & Test Rigs	£31.0
b. Trinity projects	<u>£ 7.5</u>
	£38.5m

7. Actual Spend for the purposes of calculation are

a. BAU fixed	£15.0
b. BAU Variable	£12.5
c. DDS & Core Fixed	£ 4.0
d. DDS Resource Units	£ 4.5
e. Programme Spend	<u>£ 4.3</u>
	£39.5m

Notes to accompany worked example 1:

- ☐ The Belfast Japan time and material charges are included in the Actual Spend because all of Belfast Migration is included in the definition of Programme Spend. Accommodation and agree travel expenses would not be included in the Actual Spend.
- ☐ Notwithstanding paragraph 3.6 of Schedule II (Revenue Switch Mechanism), although reviewed on a sixth monthly basis for convenience, the ultimate assessment of whether Actual Spend exceeds the Committed Spend shall be undertaken at the end of the Commitment Period and accordingly there is no consequence should Actual Spend fail to exceed Committed Spend in respect of any given year.

Example 2

The scenario is as per Example 1 with the following additions.

1. Post Office awards a new Service to Fujitsu Services under the Agreement of an estimated £1m per annum starting at the beginning of year x, priced 100% on a variable Resource Unit cost of £500.
2. Post Office places multiple CTs during the year of £3m on a T&M basis.
3. Post Office places new project (Project Calculus) with Fujitsu Services at the start of the year for £2m for a specified mix of skills. Project Calculus is outside of the definition of Programme Spend. This is placed as follows

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- a. £1.5m for fixed capacity order billed on T&M basis
 - b. £0.5m as a capped T&M.
4. At the year end the utilisation was
- a. New Service Resource Units is 1800 = £0.9m
 - b. Project Calculus capacity (increased through governance) £1.6m
 - c. Project Calculus T&M £0.3m
5. The impact on the Actual Spend for calculation purposes is
- a. Existing Actual Spend as per example 1 £39.5m
 - b. Service Resource Units £ 0.9m
 - c. Project Calculus (capacity CT only) £ 1.6m
- £42.0m

Notes to accompany worked example 2:

- ☐ Project Calculus charges can only be included in the Actual Spend when it is ordered within the definition of Committed Development Services (i.e. only those ordered under the CT for capacity). The time and material charges are excluded in the Actual Spend because the Development Services ordered by Post Office do not qualify as Additional Services as defined above. In summary:
 - ☐ All time and material resource under Programme Spend as defined in 2.6 above are included in Actual Spend (example 1 – Belfast Japan).
 - ☐ Other time and material charges not invoiced under a capacity CT are excluded from Actual Spend.

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ANNEX 3

Initial Calculation of Committed Spend

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
FO Run	25.0	26.0	26.7	27.3	27.6	29.7	162.4
Invest to Save Credit	- 1.5	- 0.8	- 1.1	- 1.4	- 1.6	- 2.2	- 8.5
Total FO Run Incl. I2S Credit	23.4	25.2	25.6	26.0	26.1	27.6	153.8
Core Team	2.8	2.9	3.0	3.1	3.1	3.3	18.2
Horizon Tech Refresh	-	-	8.0	8.2	-	-	16.2
IP Licensing	-	-	-	-	-	10.0	10.0
Invest to Save	3.9	- 0.0	- 0.0	-	-	-	3.9
Total (excl. Test Rigs)	30.1	28.1	36.6	37.2	29.2	40.9	202.1
HNG-X Test Infrastructure	2.3	2.3	1.0	1.0	1.0	1.1	8.8
Total (Incl. Test Rigs)	32.5	30.4	37.6	38.2	30.2	42.0	210.9

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Committed Spend = **£210.9m for full term of the Horizon Agreement, calculated as at 1 April 2022**

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Schedule I2**Variabilisation Framework****1. VARIABILISATION APPROACH****1.1 Variabilisation Principles**

- 1.1.1 **"Variabilisation"** refers to the process of changing the pricing model for the Services to a consumption-based, demand-driven charging mechanism, including through evolution of the application support, service management and reporting Services to underpin the move to demand-driven charges through a revision of technology and to support Post Office's future business strategy.
- 1.1.2 The baseline for the purposes of assessing the success of Variabilisation is the total 2017/18 Service Charges for the Operational Services plus HNG-X Test Infrastructure, being £27.24m (the **"Baseline"**) (established in accordance with Annex 1).
- 1.1.3 Through following the process of Variabilisation as described within this Schedule, the parties aim to move Operational Services plus HNG-X Test Infrastructure, the Charges for which represent, during 2017/18, at least 50% of the Baseline, to a consumption-based or demand-driven charging mechanism (the **"Variabilisation Goal"**).
- 1.1.4 The parties will aim to achieve the Variabilisation Goal through an open and transparent joint process. Variabilisation shall be completed by 31 March 2020 (**"Variabilisation Completion"**).
- 1.1.5 The parties will, through the relevant joint governance forums, agree a rolling six-monthly plan, detailing the intended Variabilisation activities to be undertaken by the parties during such period.
- 1.1.6 The achieved percentage of Variabilised Services (defined below) as against the Variabilisation Goal shall be regularly assessed by the parties within the relevant governance forum and ultimately upon Variabilisation Completion. A worked example of how this achieved percentage is calculated is included at Annex 2 of this Schedule I2 (Variabilisation Framework).
- 1.1.7 Where any Variabilised Service is charged on the basis of consumption but for reasons of service continuity, protection, financial reasons or

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otherwise, Post Office agrees to a minimum quantity of consumed units, the entire spend on such Variabilised Service shall be considered “variable” for the purposes of assessing the achieved percentage of Variabilised Services against the Variabilisation Goal.

1.2 Variabilisation Framework and Candidates

- 1.2.1 Within this Schedule, a “**Resource Unit**” shall refer to any unit of consumption for an element of a Variabilised Service as may be agreed between the parties.
- 1.2.2 Certain elements of the Services may be provided on the basis of specific activities and responsibilities which are Variabilised such that the consumption of such elements by Post Office is measured on a Resource Unit basis. The provision of such Variabilised Services shall be undertaken on the basis of this Schedule I2 (the “**Variabilisation Framework**”). Together, those elements of the Services delivered on a Variabilised basis under this Variabilisation Framework shall be the “Variabilised Services”.
- 1.2.3 As part of Variabilisation, the parties shall jointly identify candidate elements of the Services to be delivered as a Variabilised Service (each being a “**Variabilisation Candidate**”). Each Variabilisation Candidate shall be described in writing, with such written proposal to include:
 - 1.2.3.1 a summary of the Variabilisation Candidate;
 - 1.2.3.2 details of the specific Services that are within the scope of such Variabilisation Candidate (including describing in appropriate detail the changes proposed to the existing Services);
 - 1.2.3.3 any transition or implementation activities that may be required to deliver the Variabilised Service (including any proposed charges relating to the same);
 - 1.2.3.4 details of the underlying Resource Unit by which the Variabilisation Candidate shall be charged to Post Office (with such Resource Unit meeting the characteristics set out within paragraph 1.3 below); and
 - 1.2.3.5 a pricing proposal for the underlying Resource Unit for the Variabilisation Candidate.
- 1.2.4 Each party shall provide the other with reasonable support and assistance as may be required to establish and document each Variabilisation

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Candidate. This may include appropriate workshops and other assistance with discovery and establishment of appropriate Resource Units.

1.2.5 Where the parties agree a Variabilisation Candidate, the Parties shall document in writing such Variabilisation Candidate through the execution of a CCN (each a “**Variabilisation CCN**”). For the avoidance of doubt:

1.2.5.1 each Variabilisation CCN shall include: (i) all relevant changes to the Services; (ii) all relevant changes to the provisions of this Agreement relating to the Charges for the Services to include the agreed charge per Resource Unit and other associated Resource Unit details relating to the Variabilisation Candidate; and (iii) any other required changes to the Agreement; and

1.2.5.2 where a Variabilisation Candidate requires transition or implementation activities in order to deliver the Variabilised Services, the parties will execute an appropriate CT where necessary.

1.2.6 The parties acknowledge that:

1.2.6.1 standard commodity-based services provided by Fujitsu Services may meet the requirements of Variabilisation using the standard pricing mechanisms for such services;

1.2.6.2 not all elements of the Services or components of the pricing mechanism may be suitable to move to a demand-driven model; and

1.2.6.3 protection and surety of the Horizon system may require a form of minimum consumption commitment from Post Office to enable Fujitsu Services to meet the service levels and obligations in this Agreement, both current and as may be varied. Notwithstanding this, such minimum commitment should be with reference to a minimum number of Resource Units, rather than minimum spend.

1.3 Resource Unit Characteristics

All Resource Units will have the following characteristics:

1.3.1 consumable on a variable basis by Post Office based on actual demand;

1.3.2 sufficiently granular so as to be truly flexible such that the number of resource units consumed changes meaningfully with an increase or decrease in consumption (for example, if Post Office requires an activity

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to be performed by Fujitsu Services 100 times, a Resource Unit for the single activity, with the task charged as 100 Resource Units, would meet this requirement, whereas a Resource Unit for the activity to be performed 100 times, with the task charged as 1 Resource Unit, would not);

- 1.3.3 capable of tangible, individual and objective measurement;
- 1.3.4 wherever possible, aligned with an industry-standard definition of the applicable Resource Unit;
- 1.3.5 individually priced with a clear and objective adjustment mechanism for changes in consumption; and
- 1.3.6 accompanied by clear, agreed factors which qualify an activity as meeting any size qualification which may apply to the Resource Unit (for example, the factors that establish the Resource Unit as being "small" or "large" or "simple" or "complex").

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Annex 1

Baseline Figure

	2017/18
	<i>£m</i>
FO Run	24.90
Test Rigs	2.34
Total	27.24

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Annex 2

Worked Examples

Calculation of like-for-like service charges

The following hypothetical example assumes that all transitional programmes have completed across each Service line. The revised split of operational costs are as follows:

1. Data Centre Operations and Central Networks - calculated on a like for like basis within the Pivot to Cloud project
 - a. Fixed price element £4.0m
 - b. Minimum Resource Unit value £2.0m
 - c. Like for like other variable Resource Units £1.5m
 - d. **Total** **£7.5m**
2. Third and Fourth line support (excluding any impact of creating of OpEx to Capex)
 - a. Fixed price element £3.5m
 - b. Minimum Resource Unit value £2.0m
 - c. Like for Like variable Resource Units £2.8m
 - d. **Total** **£8.3m**
3. Service & Security Management (£6.5m)
 - a. Fixed price element £3.0m
 - b. Like for like variable Resource Units £2.8m
 - c. **Total** **£5.8m**
4. Test Rigs
 - a. Fixed Price Element £0.5m
 - b. Minimum Resource Units £1.8m
 - c. **Total** **£2.3m**
5. Summing the above totals, the total cost of like for like Operational Services and HNG-X Test Infrastructure post-Variabilisation is therefore **£23.9m**

Calculation of achieved Variabilisation percentage is as follows:

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6. Minimum Resource Units and variable Resource Units

a. Data Centre Ops and Central Networks	£3.5m
b. Third and Fourth Line Support	£4.8m
c. Service & Security Management	£2.8m
d. Test Rigs	<u>£1.8m</u>
e. Total charges from variable Resource Units	£12.9m

7. Variabilisation Achieved

- a. £12.9m of the total £23.9m is charged on a variable basis
- b. The Variabilisation achieved is therefore $12.9 / 23.9 = 54\%$.

Note to accompany the Worked Examples:

The approach adopted above is to base the calculation on a like for like service obligations. Thus in the example the numbers reflect a hypothetical saving as a result of the revised operating model and new technology. This equates to baseline number pre-variabilisation of £3.34m.

For the purposes of this illustrative example a hypothetical split of Operational Charges has been used.