

**Horizon Service Partnership
Proposal
of 12 September 2005
and
Associated Documents**

Horizon Service Partnership Proposal of 12 September 2005 and Associated Documents

1. Proposal
2. Assumptions v 3.0
3. High level plan
4. Price Spreadsheet
5. Slides from HNG – Plan X Proposed Direction presentation of 1/9/05
6. Assumptions Draft v 2.93
7. Deltaview of Assumptions v 3.0 and Assumptions 2.93
8. Establishing the HNG-X Requirements Baseline
9. Slides from presentation of proposal on 14/9/05
10. Various cost analysis and PO Hot Topics List
11. Comments on proposal from Rory Silkin
12. Comments on proposal from George Kent Smith
13. Comments summarised by Kevin Tallboy and John Wheeler
14. PO Questions on the proposal (15/9/05)
15. Questions from Mike Hannon
16. Response to Questions v 1.1 (20/9/05)
17. FJ Response to Additional Queries (29/9/05)
18. Response to additional question from Mike Hannon (3/11/05)
19. Points noted at meeting on 20/9/05
20. Spreadsheet with costs and margins
21. Spreadsheet with business change scenarios
22. Chart of fixed and variable prices (2011/12)
23. Spreadsheet with 5000 rural offices removed

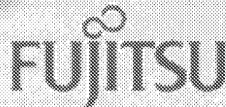
24. *FA - Key Points Resolution*



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Horizon Service Partnership Proposal

12th September 2005



POST
OFFICE

Doing Our Bit to Help Make
the Big Things Happen



Horizon Service
Partnership



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Spence Kevin

GRO GRO
GRO

12/09/2005 16:38

To: keith.k.baines GRO
cc: Lenton-Smith Colin GRO GRO Foley
Liam GRO GRO

Subject: Fujitsu Service Partnership Proposal - HNG-X

15.346% VAT
increasable

Keith,

I am pleased to enclose Fujitsu's Service Par
a new application and infrastructure architect
Office's feedback on previous work done on F
a cost profile over time consistent with that sh

menting
Post
olivers

Whilst this proposal carries forward many of th
solution with an overall lower cost profile, and
significant increase or change in risk profile to

a

I hope you find that this proposal provides an a
contract.

The contents of this email are attached as a Zip

- Fujitsu's proposal document;
- Spreadsheet containing pricing detail (tw
RPI – using POL's rates);
- A summary delivery plan;
- Assumptions Log (key technical and commercial assumptions underpinning Fujitsu's offer).

Please feel free to distribute these documents as appropriate within Post Office.

I look forward to discussing the contents of this proposal with you in due course.

Kind regards,

Kevin

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Service Partnership Proposal - Sept 2005

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1. EXECUTIVE SUMMARY

1.1 Introduction

Fujitsu understands the business challenges facing Post Office:

- reducing operational cost,
- making costs variable with the size of the branch network,
- being flexible and responsive to meet new business opportunities and
- delivering the service levels to satisfy clients, postmasters and end customers
- Post Office clients are examining new channels for service delivery

At the same time it needs to increase its organisational agility to respond to ever increasing demand for profitable new products and services whilst balancing the social role it plays on behalf of Government with the commercial reality of operating as a pic within Royal Mail Group.

Information Technology has and will continue to play a pivotal role in how well Post Office responds to these challenges. Fujitsu has worked alongside Post Office in the formation and execution of its IT strategy now for over 10 years, and during the last 18 months has examined a range of options on how Post Office's branch IT systems can best be architected and supported for the greatest benefit to Post Office. This document sets out Fujitsu Service's considered proposal for a 10 year IT Services Partnership with Post Office: a partnership dedicated to delivering impeccable service quality and system performance to Post Office branches, whilst reducing the overall cost of IT operations and providing the flexibility and agility needed to ensure that IT systems and services continue to meet the business need, whatever the size and nature of that need becomes.

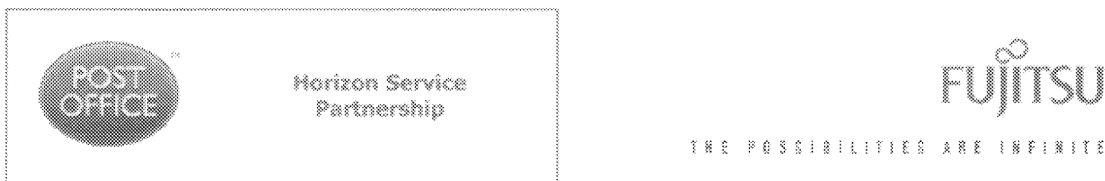
Fujitsu welcomes the opportunity of presenting this proposal to Post Office and look forward to continuing to play a major role in helping Post Office address the business challenges it faces.

1.2 Services Partnership Overview

Fujitsu's Services Partnership proposal builds upon the joint discussions which have taken place with Post Office over the past 18 months concerning Horizon Next Generation, and the more recent discussions on the specific current business challenges and priorities facing Post Office. These discussions have confirmed Post Office's key priorities for dramatically reducing operational IT cost, and increasing the scope for cost variability in the future.

Fujitsu's Service Partnership proposal has the following objectives at its core:

- To dramatically reduce the cost of operating and supporting the Horizon branch IT system (at the lowest investment cost to Post Office);
- Empower Post Office with increased technical and commercial flexibility to allow the business to adapt quickly to change at minimal cost and low risk;
- To optimise the quality of service experienced by Post Office, their agents, clients and customers of the IT systems underpinning Post Office' branch network business;

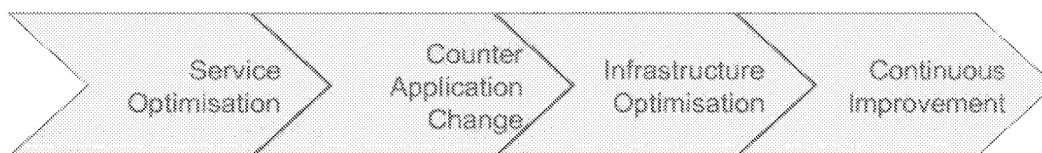


- Providing Post Office with the cost effective opportunity to serve its customers, and achieve the improved productivity from staff.

The architecture of Post Office's existing Horizon system was conceived some 10 years ago against the then business requirements and as a consequence remains constrained by a number of design limitations associated with the technology of that time. In addition, the high rate of Post Office business change since, and the consequent enhancements made to Horizon, has conspired to create a complex system demanding high levels of support.

Whereas the original design constraints of Horizon and the added system complexities are natural products of time and place, many conspire to attract operational cost which can now be avoided through the adoption of practical, proven modern alternatives.

Under the proposed Service Partnership Fujitsu proposes to take advantage of these lower cost alternatives and release the associated cost savings to Post Office. This will be implemented through a phased programme of changes (HNG-X), as summarised below:



Programme Phase	Overview of changes made	Benefits Released
Service Optimisation	Subtle changes to the existing range of services provided to Post Office to release cost at negligible impact to the business. E.g. extension of engineering SLTs from 8 hour fix to Next Business Day; use of lower cost ADSL technology (IP Stream, rather than Data Stream) transfer of data centres operations from A&L to Fujitsu	Lower operating cost base.
Counter Application Changes	Re-architected counter application centralising Post Office business data and providing a simplified, more homogeneous application environment more easily adapted to future needs. The required development will make use of off-shore development.	Lower application support costs; <u>Lowest</u> infrastructure support costs; More flexible application.
Infrastructure Optimisation	Migration to new Horizon system infrastructure including; reconfiguration of data-centres from dual-live to one resilient live, and one DR/Test site, introduction of wireless network technology to increase resilience of branch network	Lower operating cost base; Greater use of commodity technology ensures ongoing cost effectiveness;



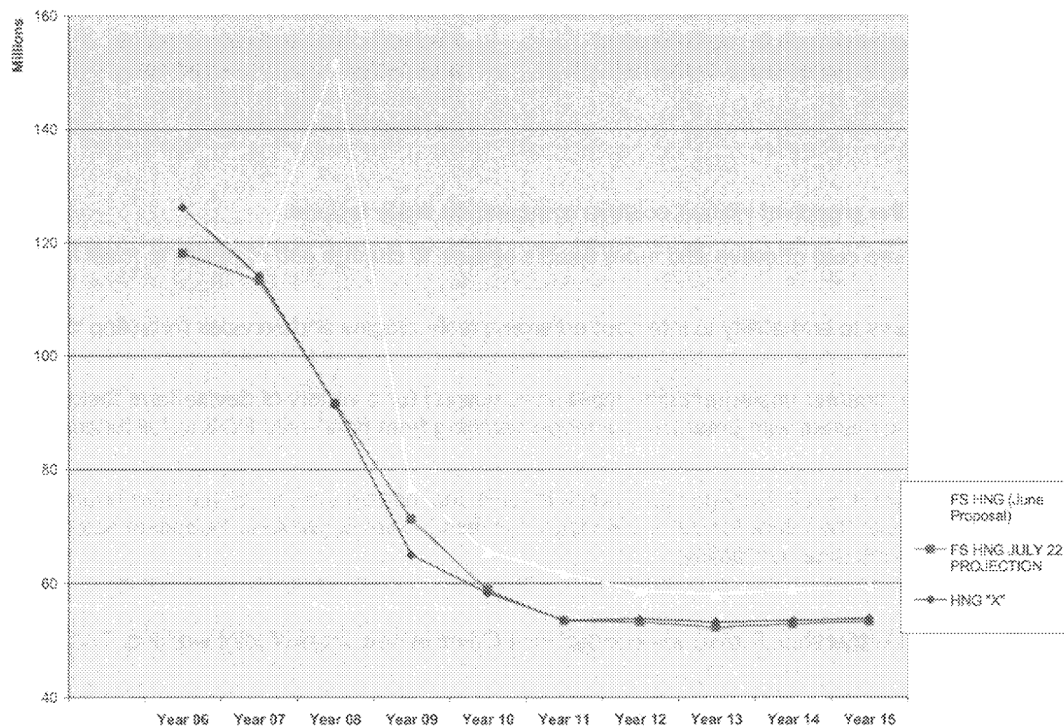
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Programme Phase	Overview of changes made	Benefits Released
	communications.	Increase branch network resilience.
Continuous Improvement	New commercial and governance models Implementation of a future technology Adaptation to Post Offices' business needs	Continued cost optimisation to future business needs

Fujitsu propose that a Programme to implement the above changes (HNG-X) be commenced at the earliest opportunity with a view to completing the migration to a new counter application by end March 2008. Thereafter a programme of continuous improvement will be pursued with Post Office under Fujitsu's Service Management to realise further gains (the "Strive").

Estimated charges for migrating to and operating the Service Partnership based on the HNG-X architecture will reduce Post Office's current annual Horizon operating costs by >40%. This is highlighted in the diagram below:

POL VIEW - COSTS (RPI AND VAT)





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The graph of charges for HNG-X also matches the projected cost curve Fujitsu presented to Post Office in July 2005 and as such represents a considerable improvement over Fujitsu's previous HNG submission in June 2005. This has been made possible due to a number of key changes in Fujitsu's solution approach, as discussed with Post Office. This includes:

Change in Scope/Approach	Associated Benefit to Post Office
Earlier introduction of service and infrastructure optimisations;	Earlier access to cost reduction.
Avoidance of counter equipment technical refresh;	Capital and roll out costs avoided, at the expense of higher support costs. (NB overall branch MTBF and counter hour availability improves compared with Horizon)
Removal of the requirement for pre-paid SI from the Service Partnership from 2010 onwards;	Reduction in fixed costs under the contract post 2010. Future SI services can be planned in on an as required basis.
Reduction in Fujitsu's Systems Integration rates;	Reduced fixed cost of pre-paid SI under the contract (NB associated level of effort not reduced).
Alternative approach to requirements definition and acceptance of the HNG-X development.	Reduced front-end requirements and design effort (reduced cost). Enhanced ability to "off-shore" development activities.

Other attributes of the proposed HNG-X solution compared to today include:

- A faster, more cost effective and more flexible system to change and enhance to meet future needs;
- Easier access to and ability to intercept emerging technologies and services (enabling the "strive");
- Flexibility in counter implementation types - i.e. support for a variety of device form factors and an operating system with potential to support anything from hand-held POS to full function PCs;
- Increased service reliability (longer branch MTBF) and system availability (counter hours) as compared with the future for current Horizon. I.e. less incidents visible to Subpostmasters, and greater serving time availability;

Under the Service Partnership, Fujitsu will engage Post Office in new ways of joint working. This will include:

- Fujitsu optionally taking a lead role in managing service delivery across Post Office's whole IT enterprise (i.e. not just Horizon elements);



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- Closer inter-working with Post Office in service delivery, service management and continuous service improvement;
- More efficient engagement in project/change implementation – minimising overlaps/duplications in current engagements, and releasing cost inside Post Office;
- Committed activities (under joint governance) to stimulate innovation and drive increasing efficiencies;

The Service Partnership will be underpinned by a fresh commercial approach. This will reflect:

- Committed cost reductions over the life of the contract
 - Enabled through changes in IT systems architecture (including a redesigned counter application)
 - Underwritten productivity improvements from Fujitsu over the life of the contract.
- Options to tailor the services delivered to Post Office to meet individual Post Office branch segment needs.
 - Supported by a pre-defined "pick-list" of service cost options.
- Commitment to a "strive" through joint working with Post Office to deliver ever greater savings and efficiency improvements over the life of the partnership:
 - Incentivised for both organisations through "Gain Share" commercial mechanisms
 - Delivered through joint working
 - Assured through market benchmarking
- New, simplified rates for Systems Integration and Project work including the introduction of off-shore development services.
- Maximised charge variability under the contract to enable Post Office to match its IT spend with business value and priorities

1.3 Summary of Benefits – Why Fujitsu?

In order to provide Post Office with the dramatic cost reductions it seeks and to maximise the potential for further cost reductions over time Fujitsu has identified a number of changes it proposes to implement under a new Services Partnership with Post Office. These changes are expected to generate substantial operational cost savings for Post Office over the 10 years term of the relationship, and release a host of other benefits.

Fujitsu is uniquely qualified and positioned to help Post Office realise the benefits offered in this proposal. Technically we have the knowledge and expertise necessary to implement the required changes. This coupled with our seasoned understanding of Post Office, its people and its business, grounds our delivery approach with the practical insight and realism which will be necessary to deliver the project successfully.

Fujitsu has proactively engaged with Post Office in HNG and HNG-X, understood the key business challenges, and in particular the drive for operational cost savings. This proposal reflects Fujitsu's commitment to Post Office, forgoing benefits which would otherwise accrue under Horizon, in preference to building a longer term business relationship with Post Office.

These attributes provide solid foundations for the HNG-X project and the critical components to ensure the success of the Service Partnership and therefore contribute to both Post Office and Fujitsu meeting its business goals.



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Fujitsu trusts that this proposal fully addresses all of Post Office's requirements for an extended Service Partnership and provides an acceptable basis to proceed to contract.



2. THE WORKING TOGETHER APPROACH

2.1 Overview

The relationship between Post Office and Fujitsu Services has developed and improved over time. However, we continue to look for new and better ways to achieve:

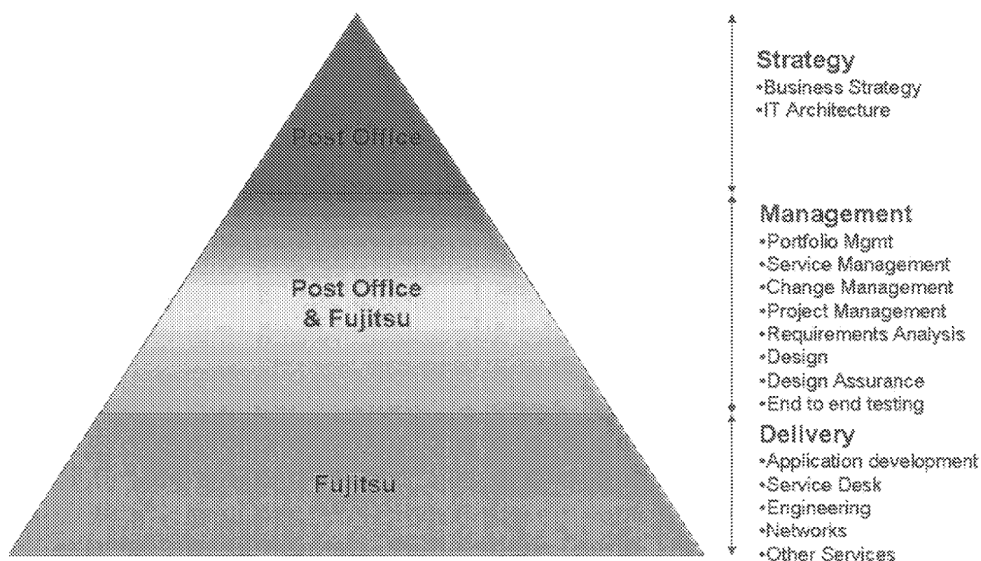
- excellence of service
- speedy and accurate communications
- avoid person-to-person marking
- reduce overall cost of operation for both organisations

This Service Partnership proposal is based on the following principles:

- enhanced commercial variability/flexibility
- transparency of pricing
- focus on business outcomes
- innovation – both technical and commercial

This approach demands a need to re-focus our teams and effect a change in approach, top down, to achieve the desired outcomes. To effect this change may demand the need for external facilitation from companies such as Sigma or PSL or similar organisations who specialise in this field.

Fujitsu's base proposal for HNG-X assumes that existing contractual boundaries between Fujitsu and Post Office, and Fujitsu and other Post Office suppliers are preserved. This is summarised in the diagram below.





In this engagement model Post Office continues to take ownership in setting strategy and approving overall IT architecture, whilst Fujitsu manages a full portfolio of "managed IT services" across the whole IT solution lifecycle. In between, there is a large element of joint working between Fujitsu and Post Office, covering predominately the management and execution of change (i.e. intercepting new business requirements and introducing these into the live IT environment).

2.2 Governance

The enhancements described below to the ways of working over the original Horizon agreement are a positive step forward and are expected to realise a number of benefits for Post Office and Fujitsu. Uniting all of these initiatives will be a partnership governance model to strengthen a mutually successful relationship going forward. This governance model must reflect all of the following:

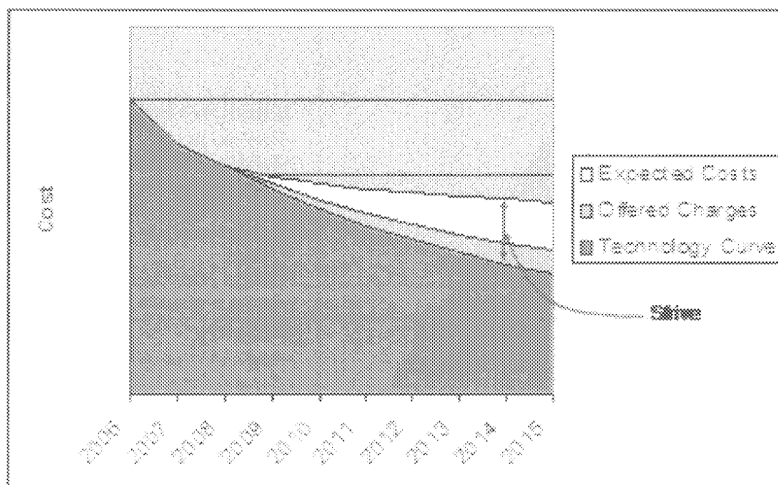
- Executive level – an annual or twice yearly meeting at executive level that takes a strategic view on the progress of the relationship and the business model
- Strive and Innovation level – a small group of not more than three representatives each from Post Office and Fujitsu whose brief is to examine new initiatives for cost reduction and value add propositions over the short and medium term. Input will be taken from industry experts. This group will also have selective and early access to Fujitsu's Research & Development facility in Tokyo.
- Commercial framework which also encompasses on-going management of the relationship and issue escalation and resolution
- Service Management encompassing continuous improvement.

2.3 Strive

An important component of the Service Partnership is its commitment to continuously seek improvements to services and the costs associated with their delivery. Post Office has defined this as "Strive", or the initiatives required to bridge the gap between a today's views of what cost is expected to be, and what may ultimately be possible through innovations in technology.

A defining aspect of "strive" is that it represents an undefined opportunity and therefore represents a commitment under the Service Partnership to do our best.

This is characterised in the diagram below:



(NB where cost represents Business Cost, not just IT costs)



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In order to deliver the Strive, Fujitsu will implement the following within the Service Partnership:

Committed cost reductions to Post Office, delivering savings, over and above what the charges are currently expected to be

- Fujitsu's charges under the Service Partnership reflect cost savings generated from year on year productivity improvements of c5% which Fujitsu will need to realise. By 2015, this equates to c13% of Fujitsu's offered price.

Assured value for money through regular benchmarking

- This will provide Post Office with the certainty that service charges will at least be as good as market norms

Gain share

- A mechanism to encourage innovation, and to deliver benefits through the early adoption/interception of new technology.

So the
strive
is built
in
already
+ not
extrin?

2.4 Commercial Innovation

Fujitsu believes that there may be further opportunity to reduce costs by challenging the current contractual boundaries.

Historically, major activity areas of joint working have attracted substantial resources from Post Office and Fujitsu due to the high rate of business change being implemented. However, Post Office now anticipates a lower rate of business change for the foreseeable future and as a consequence Fujitsu believes that there may be an opportunity to liberate further cost efficiency improvements for Post Office by rationalising these existing resources to the lower levels required to meet expected future demands. At this stage, Fujitsu sees this as a future opportunity but certainly one worth discussing between us as we aim to reduce parallelism between us.

Within our commercial solution we propose a gain share model that will ensure that both Post Office and Fujitsu are motivated to work together to drive additional cost savings as early as possible by sharing in the benefits that are realised.

Fujitsu is also interested in exploring with Post Office different commercial models to underpin any Gain Share mechanisms. This offers the potential to move beyond the traditional "Time and Materials" charging approach to projects. Such mechanisms could include:

- Shared investments – where Post Office and Fujitsu share the investment costs, and share the associated gains (this could include options where Fujitsu provides resource at "cost");
- Business value based pricing – where Fujitsu link the charges for a particular investment, to the success of it to Post Office (e.g. transaction based pricing)

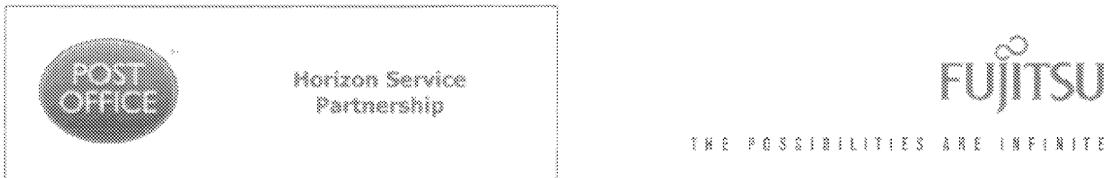
It is envisaged that different mechanisms will be employed for different opportunities reflecting the most appropriate balance of shared risk and reward.

With such a fresh approach to engagement, Fujitsu believes that it can significantly contribute to the success of Post Office as we face the business challenges ahead together.

2.5 Service Management Engagement

Fujitsu is now proposing the following new initiatives to enhance how Post Office and Fujitsu work together. The principles of this are:

For the development and programme delivery of HNG-X



- Co-located requirements team during the initial design phase of the HNG-X development (Impact evidence proves that this leads to efficiency and speedier decisions)

For future (new business) Systems Integration requirements

- Fujitsu will act as Post Office's preferred service and systems integrator (1st point of contact for any new or changed IT system requirement).
- Fujitsu will act in a more up-front role with Post Office having earlier access to business strategy and business initiatives
- Single programme office to avoid non-essential cost
- To encourage joint investment in new initiatives Fujitsu proposes introducing risk/reward models to jointly work on new opportunity development.

For ongoing operation and support of HNG-X

- Cross fertilisation of Service Management skills from Fujitsu to Post Office (ITIL structures, root-cause diagnosis, etc) to support a change from incident management to service management.
- Shared gain mechanism to reward both parties for generating any incremental cost savings realised through service improvement/optimisation.
- Flexible pricing/service options to enable Post Office to individually customise the services and associated SLAs delivered to specific Post Office branch segments (i.e. the ability to tune services to meet the specific affordability / business priorities of each of Post Office's business segments).
- ? • Transparency in purchase costs and "mark-ups" associated with bought-in (third party services) where not commercially confidential, such as Branch Networks Telecoms.
- Assurances over maintaining fair market pricing for "commodity" services.

2.6 Working & Succeeding Together – Next Steps

Fujitsu's Service Partnership proposal described throughout the rest of this document embraces many of the principles described above and identifies how they will be implemented in practice. These are expected to provide a firm basis for "walking the talk" of new ways of working under an extended contract.

However, the opportunity remains to take the principles above and seek more innovative (radical) implementations, offering the potential to realise even greater strategic engagement and efficiency improvements under the contract. The Service Partnership proposal should therefore be drafted so as to enable the implementation of any such change without cause for contractual re-negotiation. I.e. the contract should be designed to anticipate an evolution of the Working Together model during its term, and the implicit shift in contractual boundaries, roles and responsibilities.



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3. SERVICE DELIVERY & MANAGEMENT

This section describes how Fujitsu aims to deliver the various elements of the Service Partnership, identifies what changes to existing services are being made (and the associated benefits released to Post Office). All proposed changes will be made as a result of the development and implementation of HNG-X; the new application and infrastructure architecture.

are they all dependent on this? which depend on what?

The key themes underpinning the proposed approach to Service Management for Post Office are based around supporting the challenges that Post Office faces:

Reduced operational costs

- taking advantage of improvements in the manageability and serviceability of the new HNG-X architecture to drive down costs – for instance in Engineering and Systems Management
- lower network costs through the introduction of IP Stream (Home) service
- migration to Fujitsu Services Data Centres
- Improve (maximise) service quality

Provision of Best Practice service management disciplines, with a programme of continuous improvement

Build upon the existing close joint working with Post Office

- assist Post Office to maximise use of the HNG-X solution, that is being built upon the existing counter hardware and a tried and trusted service framework
- work more closely with Post Office's IT partners to encourage innovation and to maximise overall benefits to Post Office

An overview of the key highlights of the Service Partnership Approach, in relation to Service Delivery and Service Management are as follows:

SERVICE HIGHLIGHTS

- 40% reduction in ongoing service costs, when compared to Horizon
- Resilient network provision to increase on-line availability
- Adoption of upgraded service delivery and management tools based on Fujitsu corporate standards, and upgraded functionality of existing tools to exploit changes in technical architecture, leading to reduced service interventions
- Reduced number of calls and reported events from the estate leading to greater counter up-time
- Greater ability to access devices for proactive diagnostics, by extending the capability of the remote System Management system. This will be underpinned by the on-line paradigm, which will give greater visibility of devices that are experiencing faults



3.1 Service Management

This section highlights the Service Management elements of the Service Partnership;

- what it will be going forward,
- how it will be delivered,
- what benefits it will deliver for Post Office.

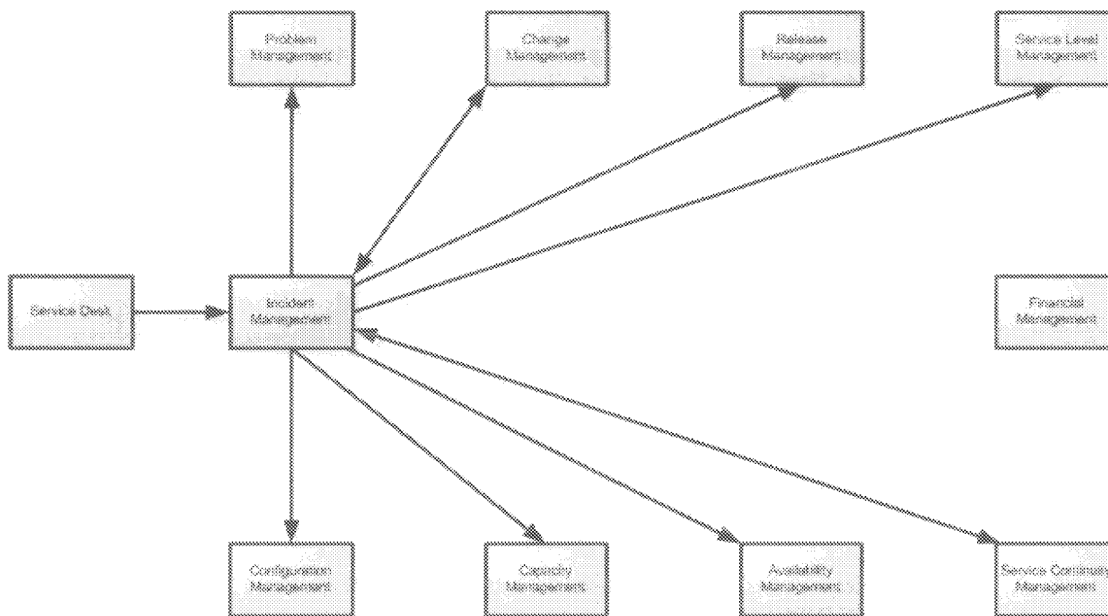
The principles of Service Management are to provide a cohesive service 'wrap' around the individual service elements (Service Desk, Engineering, 3rd line support etc) and deliver the ongoing service and continuously strive to improve the service quality,

Why are these sub-sets not able to be as strong as the whole? Or are they?

Service Management will be provided to Post Office by ITIL-accredited Service Delivery Managers with end to end ownership of a specific service, e.g. On Line Services, Data Delivery Services. This is then underpinned by support functions providing input where appropriate, e.g. Business Continuity. This organisational structure facilitates the introduction of new services or extensions to existing services quickly and seamlessly into the Service Management function.

In addition, Fujitsu will provide the Horizon Service Desk (HSD) as a key component of the service. The HSD will ensure that return to service actions are completed for all service-affecting incidents and will have interfaces with the appropriate ITIL disciplines information sources and owners, e.g. Configuration Management, Change Management, etc. (as per blueprint below)

POA Service Management Process Blueprint - Incident Management



A major objective of the new service is to reduce the number of calls and reported events that arise from the estate, and resolve any incidents generated as early and cost effectively as practical within



the defined processes. This will be a consequence of the move to a more robust application and infrastructure inherent in the new architecture and an analysis of incidents currently logged to provide input to system management design. The service will use Fujitsu's award winning Sense & Respond methodology (described in the Appendix A), to analyse calls and recommend means to drive out unnecessary demand on the service.

The Fujitsu service management team will manage both internal Fujitsu and external Fujitsu suppliers to provide a seamless service to Post Office with all parties being bound by contractual Service Level Targets and obligations as appropriate.

Each Service Delivery function will own and review a Service Improvement Plan which will be discussed at the relevant Post Office / Fujitsu Operational Review forum along with previous performance against contract.

A monthly high level review, the Service Management Forum, will take place between Post Office and Fujitsu to discuss, amongst additional items as required, the following:

- Recent performance against contract
- Service Improvements
- Risks to the delivered service
- New releases

3.2 Managed Services – Operational Services

Under the Service Partnership a number of existing Horizon services have been changed. These changes being driven as a result of Post Office's business needs, changes to the systems architecture, and new Working Together requirements. This section aims identifies where changes have taken place, with an explanation of the expected benefits.

The table below provides an overview of what has changed, and what hasn't:

OPERATIONAL SERVICES – WHATS CHANGED?	
Service Desk (HSD)	✓
Mobile Engineering	✓
Data Centre	✓
Networks	✓
Systems Management Services	✓
3 rd & 4 th Line Support	✓
Counter HW Retention	✓
Reference Data	✗
Security	✓
Reconciliation	✗
Management Information	✗
OBC	✓



3.2.1 Operational Changes

3.2.1.1 Service Desk

The help desk service is currently provided by a dedicated Fujitsu desk which utilises a customised version of the Powerhelp tool. The proposed service will migrate to a UK based shared desk, utilising the Fujitsu corporate tool set. The help desk receives calls directly from end users and will interface to service delivery units and suppliers electronically.

SLAs are proposed to be set at 80% response in 30 seconds with attendant abandonment rates. Post application roll out up to 78% of calls are hardware related and as these will rise over time the numbers of calls to the help desk have a similar profile. Other calls have been reduced at the point of roll out due to improvements in the reliability of the application.

As part of HNG-X, the facility for the Post Master to electronically log and progress a fault call will be provided. This will be an option within the HNG-X menu structure and present a simple form with drop down options. The use of this facility will enable Fujitsu to smooth the workload at the help desk and give the Sub-Post Master an efficient way of raising an incident, and passing it through process to completion. Fujitsu has assumed that this option will be used for 10% of calls. It is Fujitsu's view that this is achievable give the profile of the Post Office user base and no requirement of training beyond a communication of the availability of the facility via a flyer and a reminder by help desk agents.

3.2.1.2 Mobile Engineering

Mobile engineering is currently delivered by Fujitsu to all 14,000 sites through out the UK (including remote Highland and Islands). Due to the complexity of local data residing on the counter PC the service has been somewhat specialised. However with the proposed changes within the technical architecture the opportunity to use technical couriers will be exploited as soon as possible.

The application roll out will enable the average engineer time on site to be reduced. The SLAs will be based on a time to fix of 79% next business day with the other 21% split between 4 hours and 8 hours for branch routers and VIP sites and extended times for remote sites requiring extended travel times. The cut off time for the logging of next business day calls will be 17:30. This is a move from the current SLTs of 4,8,10 hours and remote sites. The selected percentages have been chosen to match the current requirements for critical equipment and branch outages.

The volume of calls is based on the MTBF of the equipment and a predicted increasing failure rate of 5% pa has been assumed. From contract signature to the application rollout the MTBF increase will be absorbed in the contract charges up to 120% of the baseline. The MTBF will be re-baselined after the rollout of the application. The increase after that is capped at 150% with the contract charge with any further increase at Post Office risk.

*What baseline?
increase in charges for work??*

As part of the engineering service a 'lazy' roll out of the new router will take place as part of the normal engineering visits over the two years before application rollout. A PC battery replacement has also been costed in during 2010-2012 and a replacement flat screen for those beyond economic repair from 2008.

The requirement for PAT testing post 2008 has also been included.

3.2.1.3 Data Centre

Fujitsu provides a range of data centre services to support and manage the operation Unix and Windows servers. All servers are currently hosted in two "live" data centres, currently located with Alliance & Leicester. It is now proposed, that as part of the HNG-X infrastructure changes, a new data centre architecture will be implemented and operated from within Fujitsu's own Southern data centre complexes.



The new data centre server infrastructure will be built for the HNG-X~ application on newly purchased equipment and the old equipment de-commissioned post migration. All systems and application elements, as defined by the technical architecture will be supported from Fujitsu's Belfast IS delivery unit.

The current data centre configuration is dual active sites with a hot fail over between them, and separate test facilities. This configuration would prove unnecessarily expensive under to the HNG-X architecture.

Instead the new datacentre configuration will be a single live datacentre with a second hot fail over datacentre which will also act as the test environment. This is a common configuration used within the retail market. This configuration will involve greater internal resilience within the live data centre (more than current). In addition, to ensure that a 2 hour fail over is still possible in the event of a banking failure (and 24 hour for other services), live data will still be maintained at the second (DR) datacentre.

What does this mean?

Fujitsu's data centre service is responsible for ensuring data integrity and achieving, the availability of the servers and the delivery of files to Post Office clients. Business continuity testing will also be performed under this service and will be scheduled to take place during standard business hours unless there is a requirement to disrupt the service.

Fujitsu has assumed that the low rate of change with the application from 2010 reducing the management and implementation of change in the data centres.

depends on the extent of APIABC work type further?

3.2.1.4 Networks

Networks are currently undergoing a migration from ISDN fixed line to ADSL technologies provided by Energis. The ADSL service is based on a 10:1 contention ratio.

It is now proposed that these services will be migrated over to a Fujitsu standard IP Stream ADSL service with 20:1 contention ration, with a further transfer to a 50:1 home based service after the application roll out.

?

Due to the expected limits to ADSL coverage at this time 450 (but reducing over time) branches are planned to remain on other fixed line technologies.

A wireless back up service will also be installed to provide network resilience. It is assumed that this will have 100% coverage. The network service will integrate the management of this branch infrastructure with the management of links between the data centres, Post Office client sites and Fujitsu support locations including the development and test centre.

The networks service will manage all incidents referred to them by the help desk and proactively monitor for faults.

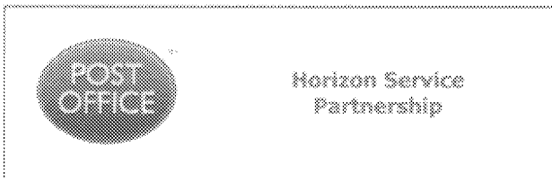
3.2.1.5 Systems Management Services

The system management service is responsible for the proactive monitoring of the live service and reacting to alerts raised by the Tivoli remotes systems management suite deployed. The current number of alerts raised by the system is 50,000 p.m. and will reduce to 25,000 p.m. after the roll out. Additionally the service performs the remote software distributions of both application changes and reference data, at approximately 3 per week to all sites. Fujitsu has assumed that the low rate of change with the application from 2010.

meaning? if APIABC used for business change the ref data change will still be higher.

3.2.1.6 Third and Fourth Line Support

Third and fourth line support are account dedicated teams which provide problem investigation and resolution for application and infrastructure issues for the Horizon systems. The cost of the teams is predicted to fall in line with the reduction in open problems under the new architecture. Fujitsu has assumed a low rate of change with the application from 2010.



3.2.1.7 Post Office Specific Services

There are an additional 5 services, specific to the Post Office solution, which have been changed where necessary in line with the changes in the application and security Post Office (Fujitsu has assumed a low rate of change from 2010):

Reference Data Service

This service provides timely, efficient and cost effective delivery of Operational Business Change to post office counters using Reference Data. No significant changes to this service as provided to Post Office are planned for HNG-X. It is assumed that the current co-location of the Fujitsu and Post Office reference data teams will continue and that once HNG-X has been implemented further synergies can be achieved.

Security Service

The Security Management Service provides a wide range of security-related activities that assist the establishment and maintenance of an ISO17799 compliant infrastructure, support legal and contractual obligations and minimise and control liabilities to Fujitsu Services and Post Office. The service monitors operations and introduces specific protective security controls on a risk assessment basis to maintain the integrity, availability and confidentiality of information used and produced by the various Services and the support environment. In particular a prosecution support service is provided to Post Office. The only significant change at HNG-X brought about by the revised architecture is in relation to cryptography.

Reconciliation Service

This service provides the reconciliation and incident management procedures required to investigate, report and resolve financial reconciliation and business incidents. No significant changes to the service as provided to Post Office are planned for HNG-X.

Management Information Service

The primary aim of the Management Information Service is to deliver performance reporting and management information relating to the Services provided to Post Office. This includes the delivery of the monthly Service Review Book, the delivery of management information in relation to Network Banking transaction data and the delivery of management information in response to Miscellaneous Data Query Requests. No significant changes to the service as provided to Post Office are planned for HNG-X. However, it is believed that there is the potential to re-evaluate this service.

Operational Business Change (Branch) Service

Acting upon specific requests from Post Office this service effects the necessary hardware and software changes required in the opening, closing and relocating of Branches. Going forward the service has been priced to provide a basic capability which will manage the annual closure profile as provided by Post Office and as documented in the Commercial Assumptions Log. Service beyond this level would be invoked via Change Control and resources will be increased on an as required basis.

relocates +
refurbs
etc?

emergency
bank
closure.

3.2.1.8 Summary of Benefits from Operational Service Changes

Horizon Service
Partnership

THE POSSIBILITIES ARE INFINITE

BENEFITS OF OPERATIONAL SERVICE CHANGES

- The use of Fujitsu's own data centres to provide improved cost and facilities management
- A single live data centre with a secondary hot swap DR/test data centre
- The adoption of an integrated shared service desk approach to integrate the help desk and second and third line support functions to provide better management controls
- Exploiting the simplified technical architecture with no local data storage at the branch to provide lower cost service options for OBC branch and field maintenance
- Resilient network provision to increase availability
- Move to lower cost branch network using 'home' ADSL technology
- Adoption of upgraded service delivery and management tools based on Fujitsu corporate standards, and upgrade functionality of existing tools exploiting changes in technical architecture leading to reduced service interventions
- Lower predicted service desk call volumes derived from the above and improved application resilience derived from the new application architecture and development.
- Use of technical couriers for engineering service with associated lower logistics cost
- Resources matched to a low rate of change in estate and application post 2010

3.3 Managed Services – Systems Integration Services

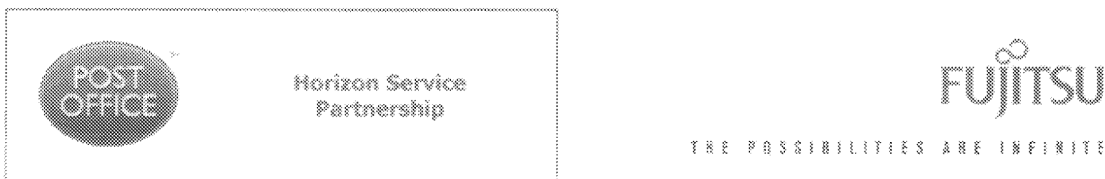
Fujitsu also provides a range of System Integration services for Post Office which provide the following facilities.

3.3.1 SI Support

This service covers a wide range of activities required to maintain a minimum SI Programme and 4th Line technical support capability. In particular functions such as:

- Change Management
- Planning
- Configuration Management
- Document Management
- 4th Line Support (as described under 3.2 above)
- Maintenance and support of test environments (for live support activities)
- Specialist 3rd party technical product support
- Overall SI team management

The cost of these activities has been estimated to reduce over time due to the reduction in open problems remaining under the HNG-X architecture and the expected low rate of change of the application from 2010.



It has been assumed that any requirement to extend the capacity of these services to accommodate higher rates of change generated from any future system requirements will be the subject of additional funding from Post Office as a result of the associated business case(s).

3.3.2 Pre-Paid System Integration Services

In the past Fujitsu has maintained a dedicated Core SI function targeted at supporting the introduction of change to the Horizon system. This has been funded through an annual pre-paid spend commitment from Post Office with assurances from Fujitsu over resource utilisation against anticipated volumes of work. The advantages of using Pre-Paid in this way to Post Office have been:

- Guaranteed availability of resource to meet planned project delivery needs (across the solution lifecycle);
- High levels of responsiveness to change requests and feasibility requests (typically impacts are provided within a target 3 weeks);
- High levels of staff utilisation by managing in/out the resources funded from pre-paid to align with Post Office's requirements;
- Leveraging synergies with the SI Support function to optimise the best overall mix of skills, availability and utilisation for Post Office;
- Retention and exploitation of Post Office specific business knowledge within the SI function.

Under the Service Partnership, Fujitsu proposes to continue to provide a dedicated Core SI team, funded under Pre-Paid up until March 2010. This team will have responsibility for:

- Implementing planned changes to existing Horizon (S90);
- Supporting the development and implementation of HNG-X;
- Lead on defining and delivering subsequent HNG-X enhancements up until March 2010.

Beyond April 2010, the contractual requirement for pre-paid is removed, providing Post Office with a commensurate reduction in charges within the Service Partnership.

Fujitsu's proposal also introduces new rates for calling-off pre-paid resource (effective 1st Jan 2006), which provides for the same level of resource (as offered under HNG) but at an overall lower cost. (These new rates will also replace the discount structures previously offered against the usage of Additional SI resource).

From April 2010 any incremental resource requirements to support new business needs or other forms of system enhancement will be subject to planning and funding on a case by case basis. This will make use of Fujitsu's internal service resourcing model where project resources can be drawn down from a central, company-wide resource pool as and when required.

This deliver model provides for the maximum possible level of skill flexibility and overall company delivery efficiency. However for Post Office this may come at the expense of: availability (longer lead times will apply than would be case under pre-paid); responsiveness (as no dedicated team will be maintained, impacting change requests and/or feasibility requests, will become "mini projects" in themselves and subject to resourcing lead times); and efficiency (as teams will be built "on demand", project costs will attract learning/ramp-up costs, and are unlikely to achieve the same levels of staff utilisation as has been the case under Horizon.



Horizon Service
Partnership



THE POSSIBILITIES ARE INFINITE

There are clearly pros and cons of using a dedicated team funded under pre-paid or resourcing projects from the centre of Fujitsu on demand. The optimum balance will ultimately be informed by the actual rate of change, which in Post Office has historically been very high.

If, as is currently expected, the rate of change in Post Office becomes low, then the argument for pre-paid is removed, and the more efficient option will be (as proposed) to resource projects on demand.

Under the proposed Service Partnership, Fujitsu will work with Post Office to plan the most appropriate approach to resourcing and funding future SI requirements. This may include agreeing with Post Office the re-introduction of contracted pre-paid resource if actual future business demands reveal this as a more economic option.

3.4 Counter Hardware Retention

The proposal for HNG-X (see section 4) is based on the retention of the existing Horizon counter hardware. This is a departure from the previous HNG proposals. This section describes the drivers for that decision, the basis for acceptability of the approach and the risk and mitigation of adopting it as a way forward. In addition, any actions which have been identified for specific Horizon equipment are detailed.

3.4.1 Drivers for decision

The avoidance of increased capital costs, including unnecessary purchases

In line with Post Office's expressed position on the affordability of any HNG-X solution, and the restrictions placed on any business case, Fujitsu have recognised that the retention of the existing equipment will remove the need for a large outlay on new capital equipment at the start of the project. This will additionally remove the risk of purchasing equipment for branches which are not included in Post Offices strategic plans and/or the network post 2008.

Moving to the Retail model of 'Sweat the Assets'

The retail sector, in Fujitsu's experience, generally looks to 'Sweat the Asset' for as long as possible without comprising the ability to deliver the services that their customers demand. The adoption of this approach would broadly fit with Post Office's recognition of its position as a retail organisation.

The avoidance of increased roll out costs – remove the need for a pilot of the roll out

Part of the rationale behind the retail approach when compared to a standard corporate desk top refresh model, is the geographically disparate estate that must be refreshed and the large attendant costs per device that are required to achieve a mass roll out. The retail approach avoids those costs.

The requirement to test the roll out within the pilot is also removed, enabling the pilot to be shortened, as the ability to organise and deliver the physical aspects of the project deployment is not required. The risk that the pilot rollout processes and planning will not be scalable from a controlled pilot to the full estate is also removed.

A desire for a smoother price curve

Through the HNG negotiation period, Post Office expressed a desire for a different shape of price curve from that which was presented. Retaining the Horizon equipment has contributed to Fujitsu's ability to present in this proposal, a curve which matched that which Post Office found acceptable.

Fujitsu have recognised that Post Office's business case model does not enable recognition of the financial impact of service quality, and therefore Post Office is unable to offset capital investment against increased productivity or availability of counter equipment.



3.4.2 Basis for decision

Performance of the current equipment

A prime basis for the decision to retain the existing equipment is its current performance in the field. At present, the equipment is enabling Post Office, with support from the engineering service from Fujitsu, to deliver their desired transaction volumes within acceptable time scales.

The ability to support New Horizon to 2015 (confirmed by Fujitsu Logistics)

Looking to the future, Fujitsu has made extensive enquiries to both the equipment supplier and repairers, and to its own organisation, as to the supportability of the equipment to the proposed new contract end of 2015. The responses to those questions have been positive with the exceptions covered against specific equipment later in this document. Whilst this is not a guarantee that a major unforeseen failure will not occur, it provides an acceptable risk against cost, given the risks and mitigation outlined below.

Fujitsu's Experience

This decision is supported by Fujitsu's experience within the hospitality sector, where we are supporting PCs based on 486 technology. However, both the application and the customer provide the flexibility to upgrade if the unit becomes beyond economic repair.

Current failure rates are deemed acceptable

Whilst Fujitsu is prepared to support the equipment, it has recognised that the failure rates will increase over the contract period. This has been estimated at 5% degradation per year. It is for Post Office to confirm whether this will continue to provide an acceptable level of service to its end users. Fujitsu have absorbed the risk of this degradation to service up to 50% from the roll out of the application.

Post Office's willingness to accept, and HNG-X's ability to support, a mixed estate

In order to offer this extended support at an acceptable risk level, it is assumed that the HNG-X application will be enable failures to be resolved by the use of equivalent equipment rather than its current environment where only exact replacements are guaranteed. This will also require Post Office, as discussed and tentatively agreed, to allow a mixed estate to be installed. The key consideration of the selection of the replacement equipment will be that the user will not perceive any issue with its use. This relaxation of exact replacement may have to extend to the equipment aesthetics e.g. colour.

*What does that mean?
Who decides?
(re. time)*

3.4.2.1 Risks and Mitigations

Hardware beyond economic repair, or unavailability of spares

To mitigate the risk of equipment becoming beyond economic repair, or spares parts becoming unavailable for repair, Fujitsu will, as is current practice, retain equipment from branch closures for spares. The level of retained equipment will be monitored with Post Office to ensure that excess quantities are not maintained beyond the anticipated demand. This could arise due to equipment becoming available as a result of major closure programs or the withdrawal of equipment from service. Fujitsu will also look to make good spares by cannibalising failed units, if this proves economic. Any decisions to scrap equipment will be subject to agreement with Post Office.

risk/cost?

As an alternative, when the spares become unavailable, given that the prerequisites satisfied by the HNG-X application are met, Fujitsu will replace the failing unit with a different but equivalent supportable model. This will be achieved via seeding the spares loop or by proactive replacement of selected branches, with the replaced equipment used for spares.

Failure rate becomes unacceptable – quality of service

In the event that the failure rate of a piece of equipment becomes unacceptable to the Post Office business users, the HNG-X environment will enable Post Office and Fujitsu to address the business



THE POSSIBILITIES ARE INFINITE

needs in more flexible and cost effective ways than under Horizon. Specifically by analysing the true nature of the failures, using Sense and Respond, Fujitsu will be able to recommend prioritise replacement programs of partial and appropriate refresh, which can be sustained by a Post Office business cases, rather than mass roll outs to the whole estate.

MTBF degradation faster than predicted

There is a risk that the Fujitsu anticipated increase in failure rate is greater than the annual 5% inbuilt into the price. This risk up to 50% is at Fujitsu risk. Above 50% Post Office have the choice of instigating replacement programs either complete or partial or if the failure rate is still acceptable to the business funding additional engineering calls.

*7) 5% = 10x5
or 2.5%
50% above
5% p.a.?*

3.4.3 Equipment Specific Actions

Below are the specific actions which have been included within the proposal, to mitigate identified risks in line with the principles outlined above.

PC

Fujitsu predict that the PC BIOS battery will require replacement before the contract end in 2015. Fujitsu have included in its price a proactive battery replacement project with the work undertaken during normal engineering visits in the period 2011/2012.

Touch Screen

The currently installed LCD screen has a number of components which are now obsolete therefore screens which fail due to those components will be un-repairable. Fujitsu have included the cost of replacing those units with new devices within its price. Screens which fail for other reasons will be repaired and return to service via the spares loop. This process will create a mixed estate.

Luggables

The current luggables will be beyond economic repair post 2010. The HNG-X application will enable Fujitsu to deploy replacement laptop based devices in the event of failure and future requirements.

will they be buying by 2010?

Counter Printer

As a large proportion of expected engineering visits are generated by failures of the existing Ithaca counter printer Fujitsu has proposed as a separate option to replace the printer with a more reliable alternative. Any decision to make the associated investment in the alternative printer is understood to be the subject of a separate Post Office business case, taking into account the acceptability of the current printer failure rate going forward (and the associated branch/counter disruption), the capital cost of replacement, and the related support cost savings, and the new advantages to Post Office business which a new printer may attract.

|| ?

3.5 Impact of Operational Service Changes

The overall service impact of the changes detailed above is positive when considered against comparable measures from continuing the existing Horizon service. This is achieved despite the worsening MTBF of the counter equipment which impacts both environments.

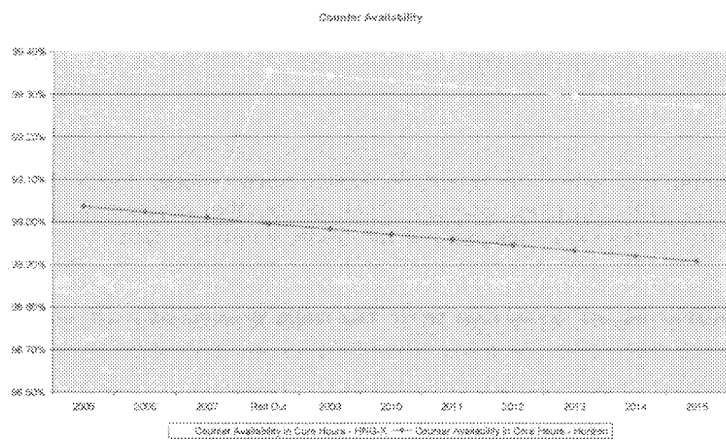
The operational service benefits from the increased reliability of the HNG-X application and the shorter time to resolve software related incidents on the counter, together with the improved reliability delivered by the resilient network and the central service elements of the critical banking service. This combines with a reduction in the number of faults reported on the counter PC and moving the single point of failure of the branch gateway from a multi functional PC to a specialised router, providing increased benefits to Post Office.



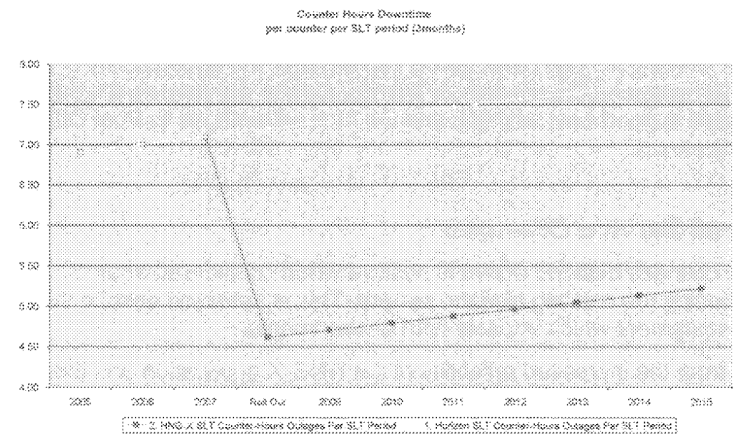
The following graphs compare the expected service characteristics of the two environments. They are based on a common set of variables to provide fair like for like comparison. (NB The 2005 metric approximates to the current reported performance of the Horizon environment). Key parameters used include:

BWR included or not?

- The Horizon environment assumes the dual live data centres, no resilient network and current counter equipment and operating system with an annual 5% MTBF reduction;
- The HNG-X environment assumes one live and one DR/test data centres, wireless back-up network, current counter equipment with an annual 5% MTBF reduction post the roll out of an upgraded operating system and HNG-X application;
- Both environments have been modelled using engineering SLTs of an average of 8 hours call to fix for 2005 and 11 hours from roll-out based on the percentage of next business day described elsewhere in the proposal.
- The definition of outage has been taken from the HNG CD 1.1 and 15% of covered hours have been defined as critical. All metrics are for core hours.



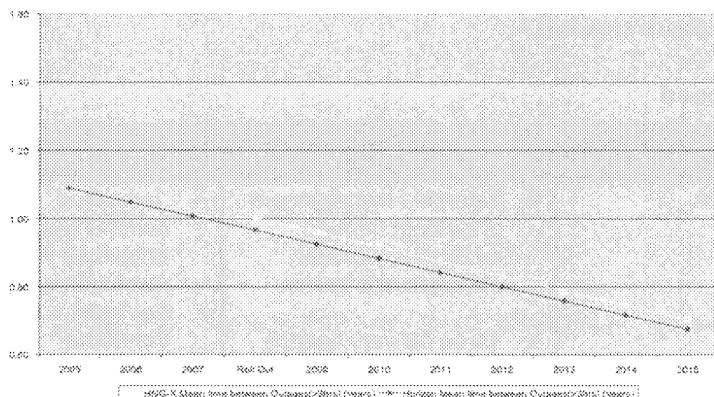
Counter Hour Availability
This graph highlights the expected higher availability of HNG-X as compared to current Horizon. A key point to note is that although availability declines in both environments, availability under HNG-X is not expected to degrade below existing levels experience with current Horizon.



Counter Hour Downtime
This graph quantifies the expected average counter down-time associated with both environments.



Branch MTBF Calls >3 hours



Branch MTBF

This graph highlights the marginal improvements in branch MTBF which HNG-X will deliver. This suggests that the frequency of breaks experienced by Post Masters under HNG-X is likely to be similar to that experience under Horizon. However when counter hour availability is taken into account, return to service is likely to be perceived as faster. Much of this can be attributed to the

back-up network.

Shouldn't back up network reduce no. of incidents as well as recovery time to fix an incident.

3.6 Managed Service Options

3.6.1 Overview

The preceding sections describe the base services which are offered (and costed) with Fujitsu's Service Partnership proposal. However Fujitsu recognises that a "one-size-fits-all" approach to service delivery (and SLTs) may no longer be appropriate to Post Office's business. As a consequence Fujitsu is pleased to introduce under the Service Partnership a facility for Post Office to "customise" the nature and level of services delivered across the various "branch segments" within Post Office's business.

The current range of customisable service options is described in the section below. NB this list of options is expected to evolve over the term of the Service Partnership.

3.6.2 Principles

In order for both Post Office and Fujitsu to achieve maximum benefit from the range of options available, the following operating principles will apply:

- Fujitsu will manage and operate for Post Office a range of services which can be uniquely tuned to meet the specific needs of up to **five** different categories of Post Office branch, or Branch Segments.
- Branch Segments can be defined by Post Office and can be varied over the term of the relationship. (Example segments could be Post Office's existing classification of Branches as VIP, Diamond, Platinum and Gold).
- Certain Fujitsu delivered services must be common to all Branch Segments (i.e. the same service levels will apply to all). This is to ensure that most optimum cost profile for the specific service is achieved (i.e. wherever differentiating the service levels between Branch Segments, would cause overall costs to increase).
- Certain Fujitsu delivered services can be tailored (delivery scope and SLAs) individually by segment but the number of service variants supported across all Branch Segments will be limited to ensure that overall costs to Post Office do not increase (typically 2-3 options will be available).



- The flexibility provided through the above mechanisms is intended to empower Post Office to balance the cost of service provided with the business value associated with each Branch Segment. The underlying assumption however is that overall total charges for the services will remain as presented in Fujitsu's proposal.

3.6.3 Service Options Proposed

Service Type	Service Element	Service Options Available	Commercial Impact
Uniform Services (i.e. Only one occurrence of the service can apply across all Branch Segments)	Service Desk	<ul style="list-style-type: none"> Extended management of incident through addition of Incident Management teams Three delivery options available (On-shore, Off-shore – India, Off-shore, South Africa) Varied commitment to electronic call logging 	<ul style="list-style-type: none"> Increased communication and enhanced incident resolution across branches – minimise downtime Reduced cost of ownership and operation of helpdesk facility Lower cost per call
	Data Centre	<ul style="list-style-type: none"> Single live data centre resilience Real time (current option selected) Without Real-time Resilience Reversion to the existing Dual-Live Data Centre model 	<ul style="list-style-type: none"> Lower capital and operating cost Decrease in availability to counter and client Greater return to service time after failure Greater operational service and capital cost Minor decrease in risk of data centre unavailability
	Remote Management	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none">
	Service Management	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none">
	3 rd Line Support	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none">
	4 th Line Support	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none">
	Test Environment	<ul style="list-style-type: none"> Test Environment for future business needs. Retained (current option selected) No Test environment retained 	<ul style="list-style-type: none"> Ability to produce maintenance releases for service pack and bug fixes Opportunity to test business change requirements Higher operational cost
Core Network	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> 	



Horizon Service Partnership



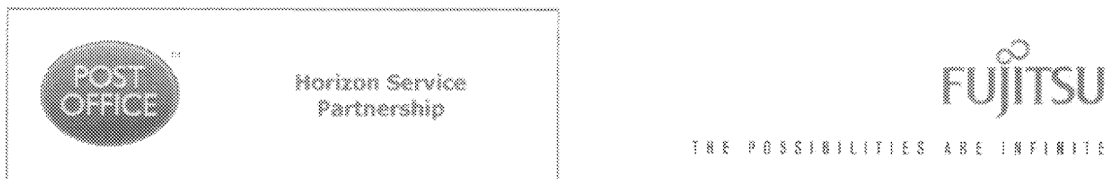
THE POSSIBILITIES ARE INFINITE

Service Type	Service Element	Service Options Available	Commercial Impact
<p>Customisable Services</p> <p>(i.e. services which can be tailored to meet the specific needs of each Branch Segment, subject to the maximum quantities identified).</p>	Branch Engineering	<p>Customisable SLAs for:</p> <ul style="list-style-type: none"> Last counter/branch All other counters by branch <p>Peripherals</p> <p>SLA options include:</p> <ul style="list-style-type: none"> Hours of Cover (8X5, 8X6, 12X6) Response time (4 hr, 8 hr, Next Business Day, Return to Base (i.e. self support)), or no SLA (reasonable endeavours). <ul style="list-style-type: none"> Segmentation 	<ul style="list-style-type: none"> SLA takes account of business criticality of equipment High SLAs cost only on single points of failure Impact on counter availability Modifies service cost Changes user perception Can be matched to business needs Link to segmentation Appropriate SLA for the business requirement Periodic review and ability to change Service vs. cost correct for the type of branch Ability to offset service cost between segments Greater complexity
	Branch Data Network	<p>The Following options available:</p> <ul style="list-style-type: none"> With wireless resilience Without wireless resilience ADSL options (e.g. IP Stream Home and Business) non ADSL (e.g. ISDN or PSTN). 	<ul style="list-style-type: none"> Impacts branch availability Appropriate price performance for the branch Select branch availability required Flexibility to change periodically Exploitation of new technology or market price structure

3.6.4 Service Options - Management of Third Party Suppliers

In order to maximise the benefits of Fujitsu's Service Partnership, Fujitsu are pleased to optionally offer to extend its services to include the management of Post Office's other third party suppliers. This would provide a single point of contact sitting within the Service Management function, to facilitate the swift

Track record on TSD?



resolution of cross domain incidents and problems not normally reported to Fujitsu, which may affect the end to end processing of transactions. In doing so, incidents and problems will be logged centrally by any one or more of the Service Partners, and managed to completion in accordance with the ITIL incident and problem management framework, with all Service Partners open to the sharing of knowledge and provision of resource to enable this to happen.

Currently, Post Office's Third Party suppliers expected to be included within this initiative are:

- Fujitsu
- LINK
- Merchant Acquirer (currently Streamline)
- Prism Alliance
- EDS
- Alliance & Leicester
- Any other third party or financial institution which may be introduced in the future by Post Office.

3.6.4.1 Principles for the Management of Third Party Suppliers

When transferring the management of Post Office's third parties to Fujitsu, a number of principles/guidelines will need to be applied in order to make this way of working efficient, cost-effective, and productive, giving a real and tangible benefit to Post Office's business. Currently identified principles, recommended for implementation by this paper, are as follows:

- Fujitsu and other Post Office third parties will be able to respond in the correct manner to ensure incident and problem management is effected in accordance with the ITIL framework
- Fujitsu and other Post Office third parties will be able to determine in which area the service is affected and provide the correct diagnosis and return to service actions where appropriate
- Single point of co-ordinated information on progress and plans for resolution
- The third party management service will identify trends in incidents that are indicative of a problem and notify or escalate to Post Office as appropriate via the Fujitsu Service Management function.

3.6.4.2 Benefits of Managing Post Office's Third Parties

The anticipated benefit of the third party management service is that it will provide a technical and IT service management understanding of the impact of incidents and problems, with management and communication consistent and professional aligned to ITIL best practice resulting in cross domain incidents and problems managed consistently and seamlessly across organisational boundaries.

The actual benefit that Post Office will realise, in terms of Service provision and resource utilisation, will depend upon the extent of empowerment and involvement Post Office would wish to grant Fujitsu in providing this function.

In order to realise further benefits from the third party management service, there a number of additional options for consideration by Post Office:

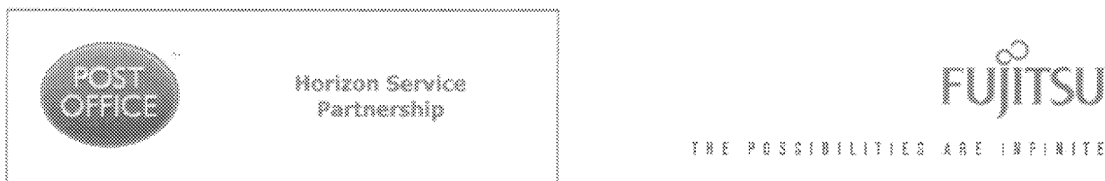


Horizon Service Partnership



THE POSSIBILITIES ARE INFINITE

Options	Benefits to Post Office
<p>Fujitsu to provide incident management system (call logging)</p>	<p>Central control of all incidents and management of the call logging function within Fujitsu leading to:</p> <ul style="list-style-type: none"> • Resource savings within the Network Support function • Tighter call management alongside standard incident management within the Horizon Service Desk leading to quicker return to service
<p>Post Office suppliers within the Service Partnership (as opposed to Post Office clients, e.g. Alliance & Leicester) to be managed directly by Fujitsu on behalf of Post Office</p>	<p>End to end Service Management provided by Fujitsu as prime supplier, leading to:</p> <ul style="list-style-type: none"> • Resource savings within Network Support • Service Partnership Post Office suppliers managed by Fujitsu in line with Fujitsu internal / external suppliers. • Fujitsu standards and expertise, i.e. IT Service Management, ITIL, Supplier Management applied to the end to end solution as it interacts with the Horizon Service



4. HNG-X: THE SOLUTION ARCHITECTURE

This section outlines the architecture of the proposed solution (HNG-X). The proposal reflects the unique understanding that Fujitsu has of current Horizon, both as a complex IT system and a critical platform for Post Office business. In addition, the proposal reflects the new requirements from Post Office for operational practices more aligned with the wider retail industry.

The proposed architecture builds upon the preparatory work jointly performed by Fujitsu and Post Office during the past eighteen months.

4.1 Change Drivers

The main driver for the definition of the solution architecture has been cost reduction.

The business capabilities currently delivered by Horizon are essential to Post Office, and changes to such capabilities would impact Post Office business. Still, the same capabilities can be delivered by systems with different cost profiles.

The solution proposed is instrumental to the reduction in the complexity of maintenance and support; hence, to the reduction of related costs for Post Office.

4.2 Business Equivalence

The concept of Business Equivalence is central to the transition from Horizon to HNG-X.

The impact currently expected on the Business Capabilities of Post Office is mainly in terms of the User Interface on the Counter. Similar (and where required/feasible identical) operational models will be used, but the look and feel will be different.

The changes will adhere to high standards for ergonomics and usability, and will enable long-lasting benefits for Post Office. The change will be visible to the users and appropriate processes are required to prepare and support the transition.

Opportunities for process-level change will also be available. Such opportunities will be explored as part of the requirement gathering phase of the programme.

4.3 Strategic Directions

The proposed direction for the solution is to build flexibility towards likely business change within the solution itself.

For example, the counter application is engineered as a delivery point for a variety of business products and services (AP-ADC like). Central applications are engineered as service units (APOP-like).

Exceptional change is supported wherever there is no impact on cost. However, the suggestion is that it is more cost effective for Post Office to address specific changes when they are actually required, rather than to prepare for a variety of possibilities that may never manifest themselves.

For example, the solution includes technologies such as Oracle and the Interstage J2EE platform that can be reused as the backbone for future service implementations.

The overarching approach is to leverage existing capabilities in the estate, both in the short term and as an ongoing capability of the resulting solution.



THE POSSIBILITIES ARE INFINITE

4.4 Business Applications

Detailed analysis conducted by Fujitsu highlights the fact that the architecture of the current applications introduces considerable manageability and serviceability complexity for the overall solution, which in turn result in service costs.

The proposed solution includes a new set of applications. The new applications reproduce the business functions of the current applications. Nevertheless, the underlying architecture addresses the manageability and serviceability issues of Horizon.

A distinctive feature of the proposed solution is the centralisation of transactional data.

4.4.1 Counter Components

While transactional data is moved to the centre, the business logic is maintained at the counters. The choice is in line with the strategic direction to leverage capabilities of the current estate, namely the counter hardware. In addition, the choice enables the containment of network traffic.

The application components on the counter will be developed using Java technology. The proposed engineering methodology is based on the SOA model (service-oriented architecture), specifically enhanced with patterns from the Fujitsu GlobalSTORE retail framework.

Meaning?

The User Interface will be based on a refinement of the style guidelines jointly developed by Fujitsu and Post Office. The working assumption is that the style sheet definitions will be defined as part of the requirement gathering phase of the programme.

Are there use cases?

4.4.1.1 AP-ADC Facility

The proposed solution includes the AP-ADC capabilities currently available to Post Office. Possible changes and optimisations in terms of internal data formats will be explored as part of the requirement gathering phase of the programme.

✓ S/S - AP-ADC

4.4.2 Data Centre Components

Some of the application components in the data centre will be newly developed; other components will be derived from the reengineering of existing applications. Specific choices will be made on an individual basis and confirmed after a more detailed analysis.

As an example, current indications are that legacy applications such as TPS, APS, LFS, DRS, and TES will remain substantially unchanged. Similarly, online interface such as ETU and Banking Streamline will need partial reengineering to support new data sources.

New capabilities will be developed for the centralised handling of transactional data, audit, and reporting. In addition, new capabilities will be developed to support centrally deployed services. Likely technology choices include Oracle and Interstage platforms.

4.4.2.1 Client Interfaces

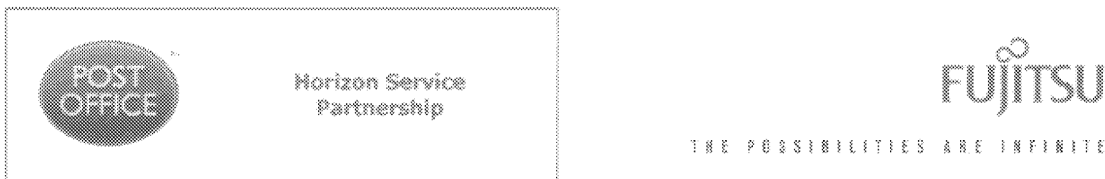
The working assumption is that no change will be required to the interfaces to Post Office clients. Possible optimisations will be explored as part of the requirement gathering phase of the programme.

Nº of interfaces during customer will be affected

4.4.2.2 APOP Facility

The proposed solution includes the APOP capabilities currently available to Post Office. Possible optimisations will be explored as part of the requirement gathering phase of the programme.

4.4.2.3 Reference Data



The existing interface from the Post Office reference data system (RDS) can remain unchanged and deliver Type A data to both Horizon and HNG-X counters. The replacement Postal Services reference data in HNG-X will be different from Horizon. The two systems will require parallel supply of reference data during the migration period. Possible optimisations of other reference data will be explored as part of the requirement gathering phase of the programme.

4.5 Infrastructure

The infrastructure layer of the proposed solution will enable the operation of all business applications to the service levels required by Post Office.

In line with the strategic direction of the solution, infrastructure choices are based on a set of cost-effectiveness criteria, in terms of capital and operation costs over the lifetime of the solution. Reuse of Horizon infrastructure components is considered from a similar perspective.

4.5.1 Counters

Based on current analysis and projections produced by Fujitsu, the current counter estate can effectively support counter applications to 2015. The proposal is therefore to reuse existing counter base hardware to 2015. An exception can be made for mobile counters for which early replacement is envisaged, as explained in section 3.2.2.7.

An operating system migration is included from current NT to a more modern operating system (candidates currently reviewed include Windows XP, Windows XP derivatives and Linux). The timing and choices for the migration will be aligned with most beneficial outcome to Post Office.

4.5.2 Network

The proposed solution for the network infrastructure and services include backup capabilities and a more cost-effective ADSL model. The current landline connection for the branches will be augmented with a wireless connection. The dual capability will be enabled by the introduction of a router device attached to the branch LAN.

Based on Fujitsu analysis, it is also possible for a considerable number of branches to move to a higher contention ratio (from 1:10 to 1:20 and 1:50) for the ADSL link without substantially degrading performance.

4.5.3 Data Centre

The proposed solution envisages a move from A&L to Fujitsu data centre facilities.

The transition will enable a more integrated approach to system operation. In particular, the move underpins the combined model proposed for Test and DR.

4.5.4 Enterprise Management

The proposed solution is based on a number of potential optimizations related to the management of OBC processes (for example, more direct access for Post Office to support systems). Improvement options will be explored as part of the requirement gathering phase of the programme.

4.6 Security Model

The security model proposed in the solution is based on established best practices for the Retail/Financial Services industries. To the best knowledge of Fujitsu, the proposed solution is fully compliant with legal and commercial requirements that Post Office must currently meet. Still, a

What basis?



THE POSSIBILITIES ARE INFINITE

complete review of current compliance requirements will form part of the requirement gathering phase of the programme.

Differences from the Horizon solution include (1) the replacement of transport-level security (i.e. VPN) with application-level security and (2) the reduction in disk-level encryption for the counter.

what else?

4.7 Disaster Resilience

The proposed solution for Disaster Resilience is based on two individually resilient data centres.

Under normal circumstances, one of the two data centres (DC-A) is active and sustains the full computational load for the entire estate. DC-A is locally resilient. Hence, failures of individual components can be contained by failover mechanism to other components within DC-A.

The second data centre (DC-B) has the same capabilities of DC-A, but under normal circumstances it is used only for testing purposes. In the case of a disaster actually occurring, specific failover procedures would ensure that the computational load for the estate is migrated to and handled by DC-B.

The failover time for the various services hosted in the data centres will be compliant with the requirements currently specified by Post Office.

As an insight into the envisaged implementation of the solution, the data storage facilities (EMC arrays) of DC-A and DC-B are constantly synchronised (using SRDF technology). Similarly, selected components of DC-B are constantly ready for rapid failover from DC-A (namely for transaction settlement and Banking services).

4.8 Training

The proposed solution includes training facilities for Counter Training Offices (CTOs).

not live branches

The proposed facilities will enable end users to familiarise themselves with the User Interface of the system as well as with the operational logic of selected processes and procedures.

The training facilities will focus on the functional capabilities of the system. As such, non-functional aspects such as responsiveness may not be representative of the actual system.

The solution assumes that the interaction with the training facilities will be script-driven and that it will occur in controlled environment.

4.9 Testing

In order to minimise capital and operational costs, the proposed solution envisages Post Office and Fujitsu sharing the passive data centre (DC-B) for testing purposes.

It is anticipated that this environment will support all agreed phases of testing subject to negotiated planning and scheduling constraints.

End Fed?

4.10 Migration

The migration from Horizon the HNG-X will be visible both at a business and technical level.

4.10.1 Business Perspective

From a business perspective, the main migration step considered in the solution relates to the training of end users. Fujitsu will endeavour to develop the training components of the solution as early as



possible in the development cycle. In addition, alpha and beta versions of the system will be made available to Post Office to enable parallel streams of work.

Time dependencies from Post Office will be defined during the requirements gathering phase of the programme.

4.10.2 Technical Perspective

The migration will involve a number of discrete steps, including

- Data centre move,
- Router introduction,
- Change of the ADSL service class,
- Counter applications introduction,
- Operating system change.

From a technical perspective, tools and procedures will be developed to support a timely and effective transition from Horizon to HNG-X. Post Office engagement will be essential throughout the process.

Main areas of impact for Post Office include:

Reference Data: some reference data may need to be produced in multiple formats.

MJR
1/10
is this only for
Plans / Roll Out
?

Client Interfaces: additional parallel interfaces will be required for Online Clients (i.e. E-Pay and Streamline)

4.10.3 Data Perspective

The integrity of all types of data will be a key priority during the migration phase.

Opportunities to improve speed and cost of migration have been identified in terms of a limited set of operational data not being migrated or being migrated in aggregate format. All information would still be available if required; only the retrieval process may require additional steps.

Horizon Service
Partnership

THE POSSIBILITIES ARE INFINITE

5. IMPLEMENTATION PLAN

5.1 Introduction

Fujitsu Services are proposing to implement HNG-X as a multi-phase programme whereby cost reductions are realised within the optimum time frame by deploying subsets of the infrastructure upgrades prior to migrating the application software components that will achieve the overall benefit realisation for the programme.

With this approach in mind Fujitsu intends to:

- Transfer the current Horizon data centre equipment to Fujitsu managed premises in order to leverage the benefits of operating within such an environment.
- Install routers in the branches in such a way that exploits the scheduled visits of the mobile engineering work force and avoids the cost of a dedicated rollout exercise.
- Deploy an IP-Stream based network to support the current Horizon application environment thus achieving some of the benefits of this technology prior to the deployment of HNG-X software.

Fujitsu Services are proposing to re-engineer significant parts of the application software architecture that supports the Horizon business solution, including the underlying infrastructure, in order to reduce the cost of ownership going forward. The prime and overriding focus of this programme from a Post Office perspective is to achieve a cost reduced but equivalent solution that enables Post Office to continue to deliver all of its business capabilities, to trade its entire product portfolio and to meet all of its stakeholder service commitments. Additionally the HNG-X implementation programme must ensure that the manner by which this is achieved does not restrict Fujitsu Services in using the most cost effective development approach or solution architecture, and also adopts an engagement process with Post Office that minimises the risk of downstream solution changes due to functional omissions or misinterpretations.

*Who
decide, the
trade-offs.*

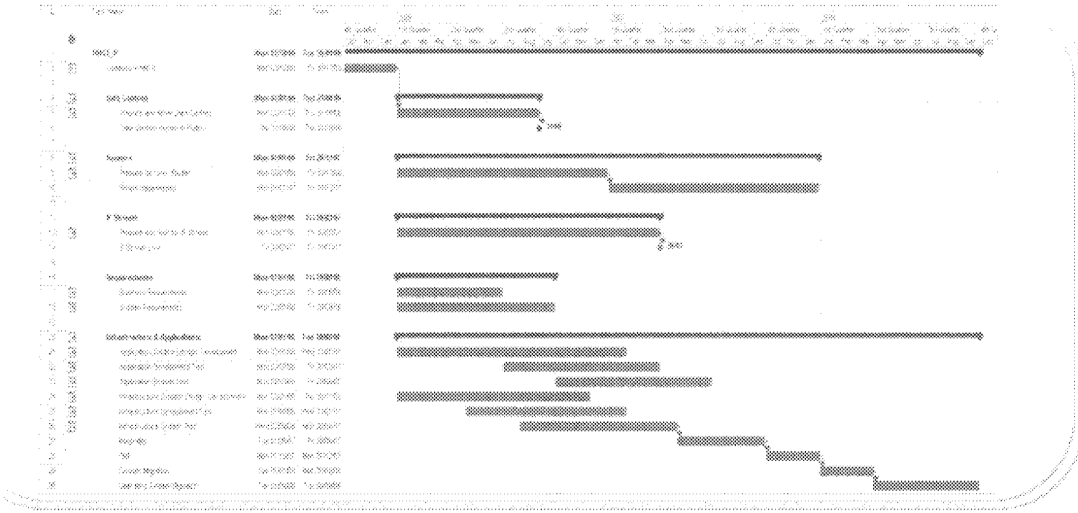
In order to achieve the programmes objectives, Fujitsu Services will exploit:

- Improved development methodologies where these increase team productivity
- Re-use of technology both from within the Horizon programme and the wider Fujitsu family
- Appropriate use of off-shore development capability working as an integral part of the development programme



5.2 The Development Plan

What is it that is done in the first 3 months!



The HNG-X plan has been created assuming delivery within the timescales proposed under the HNG Nominal plan, providing Post Office with operational savings in line with the HNG plan. This has been achieved by compensating for the lost time on HNG by utilising the window originally scheduled under HNG for roll out of new counter hardware, which is no longer proposed.

Does this include program to clear all work to date?

The HNG-X programme plan, subject to agreement with Post Office Ltd, anticipates that funded activity can commence during October 2005 in order to confirm the detailed requirements processes and to enable design activities to begin to support the challenging infrastructure change programme. It is expected that this work would progress in parallel to detailed commercial negotiations.

An additional Contingent plan, as tabled under HNG, is not proposed by Fujitsu Services for HNG-X, as contingency has been created within the plan.

In recognition of Post Office's request for early cost reductions, Fujitsu Services propose migrating the Horizon Data Centres to Fujitsu Services Data Centres over a Bank Holiday weekend during 2006. The plan schedules this for August 2006, but this would be dependant upon early approval to commence work and this may need re-scheduling to Christmas 2006 or Easter 2007.

Does this include single post branches?

It is proposed to introduce a new Router, during service visits to Post Office branches, prior to migrating counters to HNG-X. Implementation will involve migrating of the Network Connection from the Horizon Gateway PCs to the Router as part of Horizon. The new router will make management of network issues easier as it will be possible to separate the gateway PC (and VPN while on Horizon) issues from network issues. When the new application is deployed the gateway PC no longer acts as a router thus allowing bespoke software and drivers to be retired.

5.2.1 Phase 1: Requirements

One of the critical success factors in achieving the goals of the programme is the establishment of a formal HNG-X Requirements Baseline in a time / cost controlled manner that will act as the basis for the subsequent HNG-X programme. The requirements phase is represented in the plan above as two distinct areas of activity the first being "Business Requirements" which captures the application functional attributes to be delivered by HNG-X and the second "System Requirements" which records the non-functional requirements and further develops these for interpretation in technology and/or service delivery terms.



It is proposed that the HNG-X Requirements Baseline will comprise a representation of all of the business processes and interfaces supported by Horizon at an agreed baseline (Release S90) together with a definition of the revised User Interface and statement of all non-functional requirements. Acceptance Criteria must be specified as part of the development of this baseline and traced / aligned to specific requirement models or statements within the baseline.

The functional baseline will be expressed in the form of UML models comprising:

- Use Case descriptions including Main and Alternate flows describing the Post Office elementary business processes that are to be supported on the HNG-X System (e.g. Remit Stock In, Perform On-line Banking Withdrawal, Add Financial in-pay to basket etc.). These descriptions will describe the required interactions between the 'Actors' (e.g. Clerk, Client System, Post Office System) and the 'System' in a solution neutral fashion.
- A Class or Domain model describing the business objects that are associated with the Use Cases (e.g. Customer Session, Bank Card, Settlement Item etc.).
- A set of Activity or Interaction diagrams to describe the logical workflow for any complex or prescribed User / System behaviours.
- Various supporting artefacts may also be produced where these are necessary to provide a full definition of the Use Cases including any associated Business Rules and a Glossary for all commonly used terms.

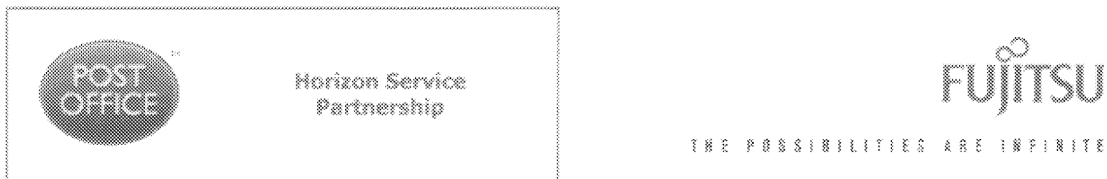
Wherever possible this functional definition should seek to use references to existing Horizon documentation rather than restating already agreed specifications. This will be particularly true of interfaces that describe external client boundaries (e.g. Application Interfaces Specifications) and other Client or Post Office specified business rules, data or specifications (e.g. Banking mapping rules, Report layouts, Transaction and error response codes etc.).

It is proposed that, subject to agreement with Post Office, the process for defining and agreeing the HNG-X User Interface will re-use much of the established HNG material and method. A focused definition stage is required that will result in the completion of these activities and the production of an agreed HNG-X User Interface Style Guide. The timing of this stage must be such that the review and design activities can be time and cost constrained and with an approval process and milestone that does not delay the dependant application design activities.

All non-functional requirements will be newly stated and either:

- Predominantly aligned to the relevant Use Case where they relate to specific process or functional constraints / qualities – (e.g. security constraints for Banking, reliability of Branch Administration process).
- Described as a set of overarching Post Office requirements that will be used to scope and constrain the HNG-X solution and service design. It should be noted that Fujitsu Services have made a number of simplifying assumptions that will affect the nature of the Post Office non-functional requirements, and these are described in outline in the working paper "Establishing the HNG-X Requirements Baseline" submitted to Post Office Ltd on the 9th September 2005.

The HNG-X Solution Architecture will retain (retained capabilities) some of the current Horizon components (e.g. various back end data-stores / process and Client interfaces). The Requirements



model will recognise these retained 'Actors' early in the analysis process and identify the boundary conditions between the new and retained components.

It is expected that the business processes / requirements for these retained components will only require minimal new definition / documentation in the HNG-X Requirements Model.

Additionally Fujitsu Services believes that there would be time and resource savings by excluding any such retained functionality from the scope of the HNG-X Acceptance Strategy, with the emphasis on Fujitsu Services managed and defined 'boundary' condition testing comparable to the existing Horizon style of regression testing for the unchanged functionality.

In order to maintain the principle of equivalence during the Requirements Specification stage, the development of the HNG-X Requirements Model will be governed by a set of 'Business Equivalence Guidelines' that will provide an overall framework for the scope and capabilities that are required to be specified. These guidelines are only intended to provide part of the scope definition of this stage of the programme and would cease to have significance once the HNG-X Requirements Model has been approved. A draft of these guidelines is included in the working paper "Establishing the HNG-X Requirements Baseline" submitted to Post Office Ltd on the 9th September 2005.

5.2.2 Phase 2: Architecture, Design & Development

Fujitsu proposes to leverage the development experience resident within existing development teams and offshore Fujitsu Development Centres to deliver the architecture, design and development of HNG-X. The approach will harness iterative methodologies to achieve productivity gains and it should be noted that the nature of offshore development requires that there is a more formal and stricter degree of separation between the 'Requirements' and 'Solution' stages. This does not mean that an isolationist approach will be adopted – when it becomes necessary for Fujitsu Services to seek clarifications, discuss design neutral choices or discuss optimisation opportunities then the ability to engage with Post Office's business and operational expertise will be welcomed.

Fujitsu intends to achieve an appropriate blend of onshore and offshore design and development operations whereby offshore staff will work, where required, onshore to ensure the delivery of an integrated solution. The architecture team responsible for the solution, in the process of generating the development estimates, have conducted an analysis of each of the components supporting the architecture to determine which elements can appropriately be developed offshore. This has led to a significant allocation of work to be developed in this way, contributing to cost reductions associated with the programme.

On going support of the delivered elements post go-live will be similarly analysed to identify how the solution can be best supported in the most effective manner.

5.2.3 Phase 3: Acceptance & Testing

In order to reduce the investment in testing hardware and the ongoing associated maintenance costs, Fujitsu proposes that the DR capability in DC-B doubles as the testing environment that will be shared by all testing functions within the programme including End-to-End. This will require careful planning and co-ordination by all parties to ensure that the planned dates are achieved but it is an optimised approach that has been proven by the Impact Programme during the introduction of Post Office FS.

The hardware and licensed software intended for use in both of the HNG-X data centres will be available, prior to Live migration, for testing HNG-X.

Prior to Live migration, the hardware in DC-A will be configured and validated in preparation for its migration to the Active Live Data Centre.



THE POSSIBILITIES ARE INFINITE

Prior to Live migration, the Hardware in DC-B will be configured and validated to ensure the DR capability is ready for operation.

Post HNG-X Live migration, the Hardware in DC-B can be utilised for validating new business, with the constraint of ensuring 4th Line support validation and DR capability is maintained. It is assumed that there is a low rate of change with the application from 2010 and that this facility may no longer be required.

It is proposed that End-to-End testing is performed as part of other planned testing streams within DC-A and DC-B and not as a discrete activity.

Any new business testing post HNG-X Live migration would be impacted if an issue were to be experienced in DC-A that requires fail-over to DC-B. Any testing would require restart from the last available backup position once DC-A was re-established.

On the understanding that there will now be a formal HNG-X Requirements baseline, Fujitsu Services proposes that, subject to agreement with Post Office, the most cost effective Acceptance Strategy is one that recognises the change of emphasis from textual statement based representation of Post Office requirements to one that for the most part comprises a set of UML models.

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Schedule

This approach must clearly protect Post Office's commercial and operational obligations but must be such that it does not adversely affect the cost reduced focus of the HNG-X programme.

It is assumed that Post Office will wish to conduct a series of Acceptance Stages throughout the HNG-X programme and that explicit Acceptance Criteria will therefore be required against which to verify the HNG-X Solution.

An alternative approach for the functional aspects of HNG-X could be based on an agreed set of outcome-based tests that are run through both Horizon and HNG-X as the basis of verifying business equivalence.

we would
need high
visibility of
details for
the Fx
model

On the basis that criteria are required, Post Office may wish therefore to continue the HNG process of developing Acceptance Criteria from the various Horizon information sources and to initially use this material to support the development of the HNG-X Use Cases. It should then be feasible for the majority of these Acceptance Criteria to be formally associated with the requirements model (e.g. Use Cases for functional criteria, Workflow models for Branch process / constraints criteria, the Style Guide & scenarios for UI qualities). It is assumed that any existing non-functional criteria will be used to support the definition of the HNG-X non-functional requirements and associated criteria.

The overall aim of this process is develop an HNG-X Acceptance Criteria baseline that is wholly aligned with the HNG-X Requirements Model.

It may be necessary for some of these Acceptance Criteria to be 'levelled' to the same extent as the scope and detail within the Use Case – i.e. they should be aggregated and revised to reflect the business process / solution neutral level of specification rather than (in some cases) the more detailed solution based view contained in the original Horizon material. It should be an overall objective to ensure that the text of the Acceptance Criteria relates as closely as possible to the processes, objects and rules that will form the Requirements Model to minimise the need for later interpretation and to allow the HNG-X Test Strategy (for functional testing) to be focused on verifying the Use Cases, rather than having to take special consideration of HNG-X Acceptance Criteria.

This process of rationalisation and alignment would be part of the responsibility of the joint Requirements team, but with final approval on the nature and scope of the acceptance criteria being with Post Office.

It is intended that the HNG-X Solution Architecture will re-use certain established and stable solution components of the current Horizon architecture. In particular it is proposed that the majority of the Horizon Host capabilities and associated external interfaces will remain unchanged with limited rationalisation of certain data-stores to reduce operating costs.



THE POSSIBILITIES ARE INFINITE

This re-use approach should be capable of being reflected in the degree of analysis and definition required in the HNG-X Requirements baseline and in the associated acceptance criteria and testing approach. The scope of the current Use Case survey includes all Post Office business capabilities irrespective of any component re-use in the emerging HNG-X solution. Once this overall solution architecture has been approved it is proposed that the retained Horizon capabilities should be included in the HNG-X Requirements Model as 'internal System Actors' rather than as Use Cases where the emphasis will be on defining their boundary characteristics rather than formally specifying the business requirements and processes that they support.

need
exact
reason
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References to the relevant documentation (initially to the current material plus any planned changes to support HNG-X) should be sufficient to support the HNG-X baseline definition.

will need
to accept
for all
G2G
Capabilities
will have
2 over base

Excluding these retained capabilities from the more detailed stages of the HNG-X Baseline definition should also reduce or remove the need for the specification of corresponding Acceptance Criteria – at least for any functional capabilities. Fujitsu Services expect that agreement can be reached with Post Office on a testing approach for these retained components comparable to the suite of regression tests used to verify unchanged capabilities on current Horizon.

5.2.4 Phase 4: Soft Launch / Pilot

The pilot/soft launch stage of the programme, currently allocated three months in the proposed DRAFT plan, is very much under the control of Post Office as the final Business Assurance takes place. Fujitsu will continue to support Post Office with the technical management of this phase and the monitoring of the outcomes.

5.2.5 Phase 5: Application Migration

Upon completion of the pilot phase, it is proposed by Fujitsu that the application will be deployed, initially, on the current counter operating system (NT4) thus enabling associated benefits to be realised as soon as possible. A three-month migration window is currently present in the DRAFT plan but it is recognised that the deployment of these changes is dependent on the ability of the business to support the rate of change. Branch Trading is due to be deployed imminently and it is believed that this phase of the Impact Programme will yield useful indicators of the rate of change that the business can support.

different
types of
change -
Branching
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customer
service
affects
change.

Following the completion of counter application deployment, it is proposed by Fujitsu that the counter operating system would be upgraded to a more recent software platform. It is recognised that this could be overlapped with the counter application deployment but it is felt that there is no real gain to be achieved in return for the associated complexity and risk.

→ depends on right
more mobile solutions.

5.3 Rules of Engagement

The following section highlights the roles and responsibilities expected of both Fujitsu Services and Post Office, to ensure efficient and error free delivery of the changes proposed.

5.3.1 Programme Management

Fujitsu proposes that the criticality of the HNG-X Programme justifies the establishment of a joint management structure in line with previous successful major programmes (Network Banking and Impact) where there is established senior management sponsorship within both organisations and agreed escalation routes to support effective delivery.



5.3.2 Requirements capture

Fujitsu proposes that the task of capturing and recording business requirements should be jointly shared by Post Office and Fujitsu working in a tightly integrated, co-located team that leverages the knowledge and capabilities of both organisations – with the analytical and Horizon application knowledge of Fujitsu Services able to complement the Post Office business and operational knowledge.

It is proposed that the joint team is established with the common objective of delivering the HNG-X Requirements Model within an agreed time / cost budget to support parallel Solution Design and High Level Design activities.

An agreed method of working will be necessary to ensure that this activity does not escalate beyond its allocated time / cost budget and to ensure that the scope and level of detail is constrained to that sufficient to express the business requirement and not any detail of solution realisation.

In particular it will important to recognise that the packaging of the deliverables from this stage should ideally be a complete representation of the functional / UI and non functional requirements for each 'group' or 'classification' of business function, together with the associated Acceptance Criteria. The emphasis of the assurance activities should predominately be focussed on ensuring the full, complete and acceptable coverage and definition of the business and procedural capabilities / requirements rather than on the manner by which the HNG-X solution design and build is to be realised.

Fujitsu Services will have the responsibility to enhance the business requirements baseline with the system and technology specific specifications leading into the solution design and build phase.

? p.o
level of
detail.

5.3.3 Solution Design

Design of the solution will remain the sole responsibility of Fujitsu Services but it is expected that Post Office will maintain a continued awareness and understanding of the solution as it evolves, not for approval purposes, but to support internal communication and business awareness within Post Office in preparation for the successful deployment of the solution.

↓
ditto

5.3.4 Development

During the development phase of the HNG-X Programme, Fujitsu expects the continued support of Post Office in the resolution and clarification of issues arising during these activities.

↓
ditto

5.3.5 Acceptance and Testing

Fujitsu proposes that Post Office will:

- Provide acceptance approval with respect to how tests will map onto the validation of Acceptance Criteria.
- Review, as appropriate, the testing outputs.
- Co-ordinate Post Office clients and suppliers who are involved in End-to-End testing.

↓
ditto

5.3.6 Pilot

Post Office and Fujitsu Services will jointly manage the implementation and monitoring of the HNG-X pilot activities.



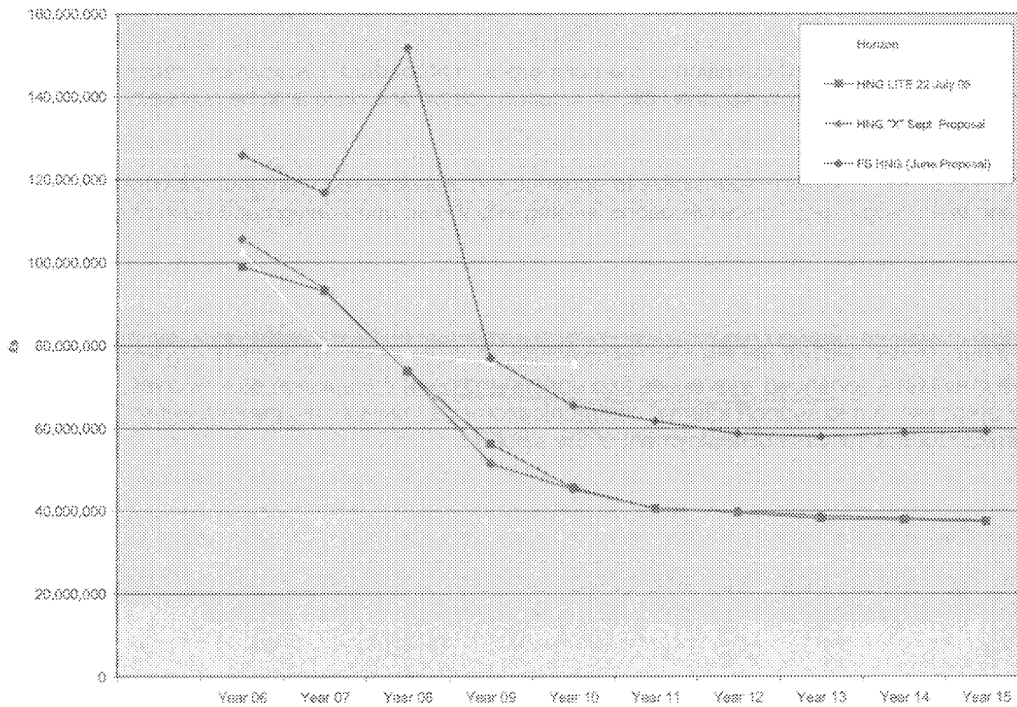
6. COMMERCIAL SUMMARY

This section presents Fujitsu's estimated charges and associated commercial assumptions underpinning the proposed Service Partnership.

6.1 Investment Summary

An estimate of Fujitsu's charges during the 10 year term of the Service Partnership is summarised in the graph and table below. For convenience, overlaid on the graph are comparisons with Fujitsu's previous estimate for HNG (June 2005) and the alternative "cost curve projection" presented to Post Office in July 2005.

FUJITSU SERVICES PRICING



Z Y06
- Y15
230.0
291.8

Total Charges (Excl. VAT and RPI)

EMs	Y06	Y07	Y08	Y09	Y10	Y11	Y12	Y13	Y14	Y15	TOTAL
Operational Services	65.3	55.2	52.0	39.3	33.3	32.7	32.2	31.2	30.8	30.5	402.4
SI Services	24.9	25.4	19.1	11.8	11.5	7.2	7.1	6.9	6.8	6.6	127.1
Capital	3.9	13.1	2.6	0.3	0.4	0.7	0.7	0.7	0.7	0.7	23.8
Others	11.6	0.1									11.7
Total	105.7	93.8	73.6	51.3	45.2	40.6	40.0	38.8	38.2	37.7	565.0



THE POSSIBILITIES ARE INFINITE

what are the RPI & VAT recovery rate assumptions?

Total Charges (Incl. VAT (irrecoverable) and RPI)											
EMs	Y06	Y07	Y08	Y09	Y10	Y11	Y12	Y13	Y14	Y15	TOTAL
Operational Services	77.9	67.1	64.5	49.7	43.0	43.0	43.2	42.7	43.0	43.4	517.6
SI Services	29.7	30.9	23.7	14.9	14.8	9.5	9.5	9.5	9.5	9.4	161.2
Capital	4.7	15.9	3.2	0.3	0.5	1.0	1.0	1.0	1.0	1.0	29.5
Others	13.8	0.2									14.0
Total	126.1	114.1	91.3	65.0	58.3	53.5	53.7	53.2	53.4	53.8	722.3

From the graph above it can be seen that Fujitsu's Service Partnership proposal using HNG Plan X offers incremental savings over Fujitsu's June HNG proposal, and correlates very highly with the alternative projection presented to Post Office in July.

A spreadsheet containing a break down of Fujitsu's revised estimates for the 10 year term of the Service Partnership has been provided separately to this document

6.2 Additional Pricing Information

6.2.1 Managed Service Options

Section 3 of this proposal identifies the opportunity to vary the form and associated service levels of the managed services delivered within the Service Partnership. Under the final contract, Fujitsu will provide a facility to allow Post Office to understand the various cost profiles associated with different service combinations. This is expected to assist Post Office in customizing the nature of service delivered to different Post Office branch segments, based on the business value and importance of each segments.

6.2.2 Financial Impact of Counter Printer Replacement

Fujitsu's proposal has assumed that Post Office's existing Branch Counter equipment will be supported through to 2015. However, Post Office has expressed an interest in understanding the financial impact of replacing the existing Ithaca counter printer with a suitable alternative. This is already the subject of a separate proposal to Post Office (May 2005). The following table confirms what variance to Fujitsu's charges would arise through replacing the Ithaca printer on a "fit on fail" basis from March 2007.

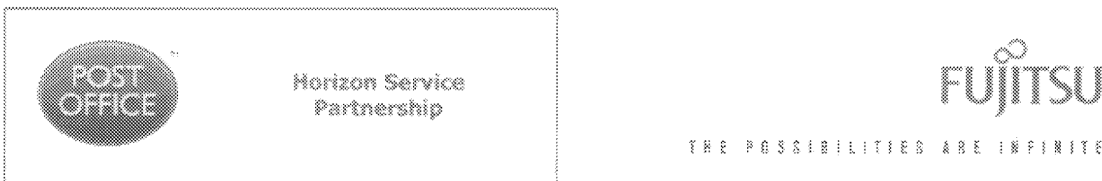
Total Variance to Charges (Excl. VAT & RPI)

Why is the Capital a lower sum?

(EMs)	Y06	Y07	Y08	Y09	Y10	Y11	Y12	Y13	Y14	Y15	TOTAL
Capital			9.5								9.5
Operational Services			-1.2	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-8.8
Total			8.3	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	0.7

Total Variance to Charges (Incl. VAT & RPI)

(EMs)	Y06	Y07	Y08	Y09	Y10	Y11	Y12	Y13	Y14	Y15	TOTAL
Capital			10.9								10.9
Operational Services			-1.5	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-11.7
Total			9.5	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-0.8



NB The introduction of the proposed replacement counter printer will also have a positive impact on Branch MTBF and Counter Hour availability. Fujitsu will be pleased to share the associated service characteristics statistics as appropriate.

6.2.3 Revised SI Man Day Roles and Rates

Fujitsu is pleased to introduce a new set of rates associated with delivering Systems Integration activities. Three different sets of rates are now available covering "off-shored" delivery (via Fujitsu's Indian operation), "Near Shore" (i.e. off-shored resource, alongside Fujitsu resource in the UK), and "on-shore" (resources as currently provided). It is expected that different combinations of "shoring" options will be possible for any future SI work.

What is the mapping for cost rates

Personnel Role	Rate per working day	Rate per working day	Rate per working day
	On Shore	Near Shore	Offshore
Systems Engineer	£462	£436	£168
Senior System Engineer	£560	£452	£178
Lead System Engineer	£659	£486	£194
Consultant, Unit Leader	£771	£570	£270
Senior Consultant, Manager	£952	-	-
Senior Manager, Principal Specialist	£1,118	-	-

NB The above rates are based on the following assumptions:

- Rates are effective from the 1st of January, 2006.
- A single set of rates are presented fully discounted (i.e. no further discount is available for Additional SI).
- Only "On-Shore" rates are applicable to Pre-Paid
- All rates are applicable to Additional SI spend
- Rates reflect a 37 hour working week, delivered between the hours of 8.00am and 18.00pm (local time) Monday to Friday inclusive, excluding UK public holidays (previous rates were based on a 40 hour week)
- Charges subject to annual RPI increase (as applicable within their country of origin).

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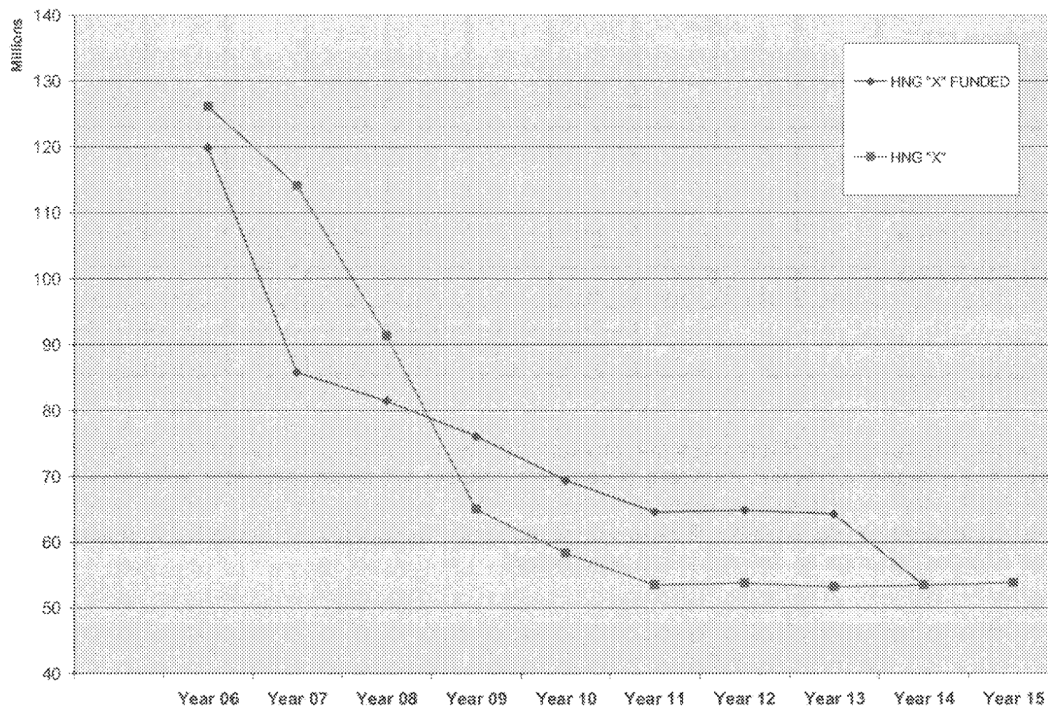


6.2.4 Funding Options

Fujitsu understands that Post Office currently faces constraints over cash availability and has previously sought to understand potential funding options available from Fujitsu. The proposed architecture solution, HNG-X, underpinning this Service Partnership proposal now attracts significantly less up-front investment than that required for the previous HNG proposal and therefore provides an opportunity for the required investment to be funded from within Post Office's existing forecast of revenue expenditure.

Fujitsu is however still pleased to offer Post Office a funded option for delivering the required HNG-X changes. The following diagram provides an indication of how the expenditure for the Service Partnership could be profiled if a funded solution was implemented.

HNG "X" - FUNDING OPTION



This graph is provided for information only, and remains subject to confirmation of Post Office's specific funding needs (amounts, term, deliverables, etc).

6.3 Commercial Flexibility/Variability

Fujitsu's charges for the Service Partnership presented above reflect Post Office's projections on numbers of Post Office branches, counters and transaction volumes over the 10 year period. However Fujitsu recognises that the uncertainty facing Post Office's business today may result in significant variances in the size of the branch network and the volume and type of transactions carried.

Fujitsu can confirm that the HNG-X architecture proposed under the Service Partnership creates the flexibility to reduce the underlying operational service and infrastructure cost base of the contract by up



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to 60%, following migration to HNG-X. i.e. if Post Office's business was to contract to only one counter, in only one branch, handling only one transaction of a single product type, costs to deliver required services would reduce by 60% of those stated above.

This is of course a theoretical expectation of "lowest cost" as future Post Office business scenarios are unlikely to be so drastic. Therefore to assist Post Office in understanding the more likely flexibility/variability of the cost base underpinning the Service Partnership the following three example scenarios have been used to generate revised estimates of the total operational support charges.

Price Flexibility/Variability EMs (excluding VAT & RPI)	Y06	Y07	Y08	Y09	Y10	Y11	Y12	Y13	Y14	Y15	TOTAL
Scenario 1											9.3%
4000 fewer Branches, 4000 fewer counters, 100% transaction volumes, all services											7.3%
Reduction in Operating Charges				-3.64	-3.68	-3.83	-2.88	-2.89	-2.85	-2.82	-31.29
Scenario 2											18.5%
7000 fewer Branches, 8790 fewer counters, 100% transaction volumes, all services											14.6%
Reduction in Operating Charges				-7.28	-8.15	-8.84	-5.85	-5.75	-5.69	-5.83	-42.48
Scenario 3											21.6%
7000 fewer Branches, 8790 fewer counters, 50% transaction volumes, all services											17.0%
Reduction in Operating Charges				-8.48	-7.19	-7.86	-6.96	-6.73	-6.85	-6.58	-48.86
Including Non-recoverable VAT and RPI:											
Scenario 1				-4.80	-3.88	-3.99	-4.00	-3.95	-3.88	-4.02	-28.53
Scenario 2				-8.19	-7.94	-7.95	-7.99	-7.89	-7.94	-8.03	-55.93
Scenario 3				-10.74	-9.29	-9.30	-9.34	-9.22	-9.29	-9.59	-68.96

Who decides what is suitable?

Fujitsu's commercial proposal assumes that any operational cost savings realised through reductions in Post Office's actual needs (i.e. numbers of counters, branches, transactions, etc), will be re-invested into the Service Partnership to fund other activities. However, in the event that no suitable new business requirements are available, Fujitsu will release back to Post Office (through the mechanism of reduced charges) savings as defined in the table below:

Share of Charge Reductions Returned to P.O.	Y06	Y07	Y08	Y09	Y10	Y11	Y12	Y13	Y14	Y15
No incremental business	N/A	N/A	N/A	10%	20%	30%	40%	60%	80%	100%
£1M pa of incremental services business	N/A	N/A	N/A	20%	40%	60%	80%	100%	100%	100%
£5M pa of incremental services business	N/A	N/A	N/A	50%	60%	80%	100%	100%	100%	100%
£10M pa of incremental services business	N/A	N/A	N/A	100%	100%	100%	100%	100%	100%	100%

In the above table, incremental business is defined as any annually recurring IT service business contracted to Fujitsu.

is not development work?



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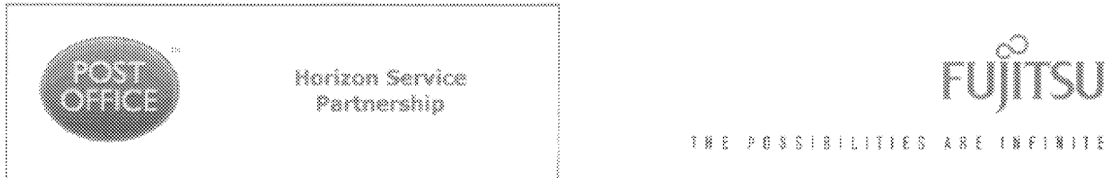
6.4 Commercial Assumptions

Enclosed with this document is a full set of assumptions (Assumptions Log v3.0) which underpin the estimates provided in this document.

- The estimates provided in this proposal are contingent upon Post Office agreeing to the following additional terms:
- Agreement to progress to contract on the basis of the revised estimates with the target for agreeing contract principles of no later than 31st October 2005.
- Restoration of the exclusivity arrangement reflected in the HNG Heads of Agreement with immediate effect.

Fujitsu reserves the right to revise or withdraw its estimates and offer for the Service Partnership in the event that any of the above conditions are not met.

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APPENDIX A: SENSE & RESPOND

Sense and Respond is an approach to harness the continually evolving operational environment with the ability to respond rapidly to changing customer needs as shown in the diagram below. IT moves from being reactive to being proactive.



The resultant benefits delivered can include:

- A reduction in the number of waste calls providing options on the deployment of resources and cost related benefits
- The opportunity to deliver more first time fixes hence improving the overall level of service
- The opportunity to identify trends across a number of different customers and take action as a result

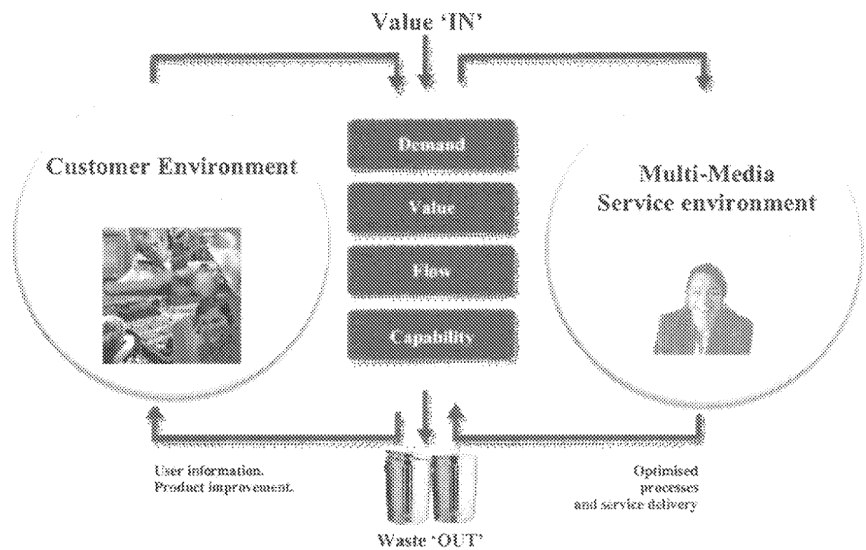
Sense and Respond is an approach to harness the continually evolving operational environment with the ability to respond rapidly to changing customer needs. The focus is to respond with methods rather than set processes.

While technologies and processes are enablers for efficient Service Desk service delivery, the agents at 1st and 2nd line focus on the effectiveness of the Service Desk. The responsibility for whether a service is deemed to be good or not lies with the Service Desk staff.

Implementing the 'Sense and Respond' programme within Fujitsu has enabled the creation of an environment whereby the staff at the front end of the operation has influence over the development and improvement of the operation.



Skilled staff and method



As a thought leader, Fujitsu is at the forefront of customer support thinking in many areas, including 'Sense and Respond', systems development, and service design. Many examples of Fujitsu's experience in this field are available, including the following:

1. The London School of Economics has just begun a study of Fujitsu's customer support operations, commissioned by the UK Government Department of Trade & Industry (DTI). The DTI will publish the results of this report as benchmark for customers to measure and evaluate customer support services
2. Following detailed discussions, Gartner are currently modifying their definition and thinking around customer support Service Desks in line with that championed by Fujitsu
3. Fujitsu Operations Managers regularly contribute to industry magazines on subjects from CRM to tool sets and Management Methodologies

check with Tom R?

Fujitsu's managers are often asked to participate in Industry Awards and working committees.

'Sense and Respond' techniques have been introduced to consumer Service Desks. Through the introduction of 'Sense and Respond' end-to-end capability measures, (measuring the service from start to finish, even when that service is provided by third parties) findings indicate the method enables front-line staff to identify different groups of customers and their issues.

Implementing the 'Sense and Respond' programme within Fujitsu has enabled the creation of an environment whereby the staff at the front end of the operation has ??have -LF ?? influence over the development and improvement of the operation. The benefits to Fujitsu customers of its Help Desk Interactive Management Method are:

1. A service and process framework which ensures rapid implementation
2. Commitment to reducing service demands and waste
3. Lower call volumes and improved customer satisfaction



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4. Higher service desk staff retention rates with flexible resourcing to meet variations in service demand.

Supporting new businesses with the ability to meet growing service demand quickly and flexibly:

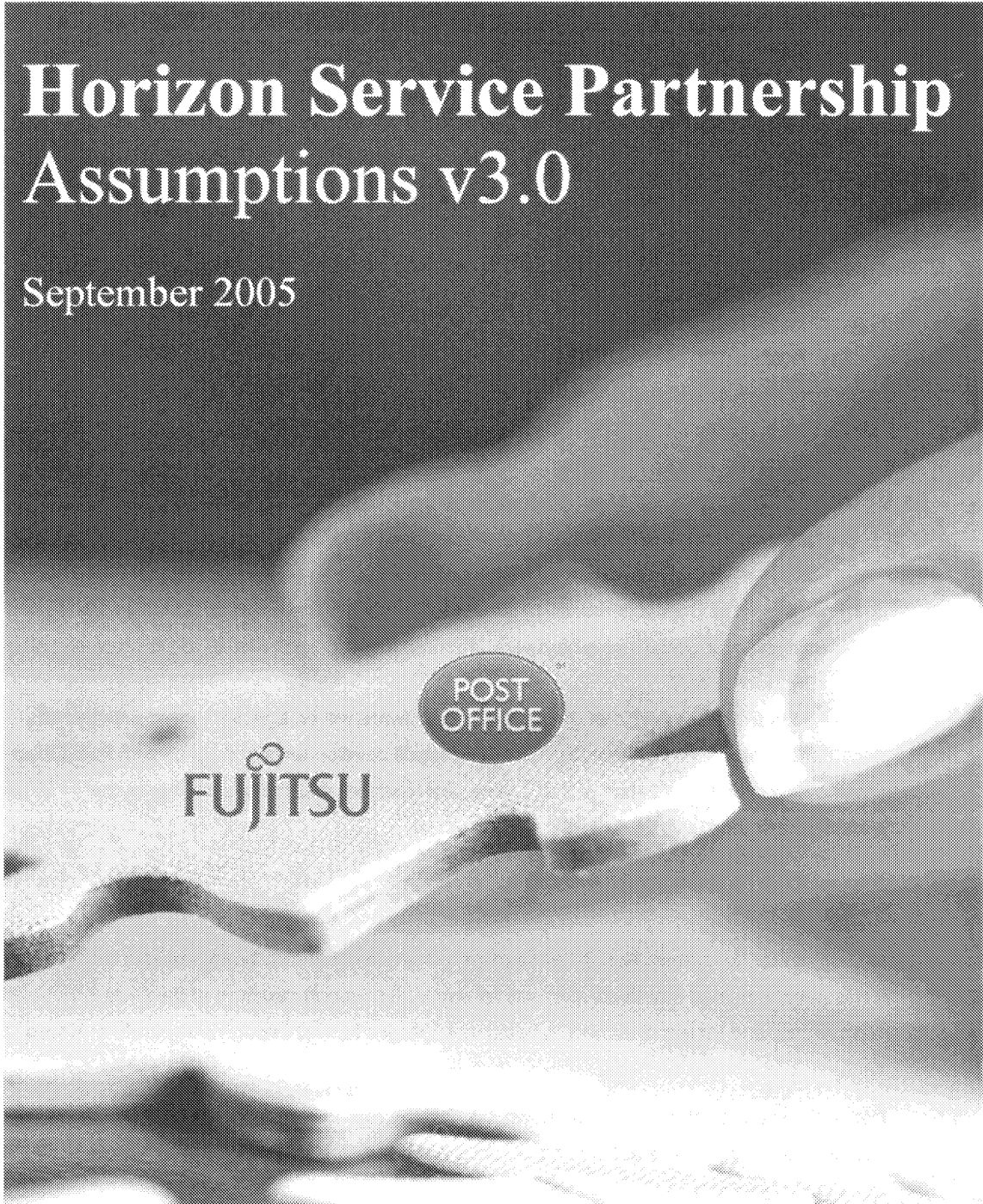
1. Improved user production and satisfaction
2. Reduced support costs
3. The flexibility to quickly implement leading edge technologies to gain competitive advantage
4. Understanding of true customer focus
5. Improvement of uptime with system tools exploited on behalf of the customer
6. Service levels improved and costs optimized.



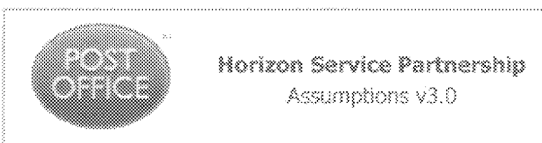
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Horizon Service Partnership Assumptions v3.0

September 2005



**Doing Our Bit to Help Make
the Big Things Happen**



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Introduction

This document sets out the assumptions that support Fujitsu's proposal for a Service Partnership.

1. General Assumptions

- 1.1 Fujitsu's charges do not reflect:
 - 1.1.1 Any "Additional SI" from April 2006 onwards. Any such spend has been assumed to be subject to separate business case justification by Post Office.
 - 1.1.2 Moneys currently retained by Post Office relating to NBX but expected to be invoiced and paid in 2005/6.
 - 1.1.3 VAT and RPI increases. However for comparison purposes Fujitsu's charges are also presented to include RPI at 2.00% per annum post 2005/06 and irrecoverable VAT at 15.225% (which may need further clarification by POL).
 - 1.1.1.1 In respect of Capital items, RPI increases for 2004/05 are not applicable to the HNG-X estimates for Data Centre hardware procurement, but is applicable to Software and other Hardware items.
- 1.2 FS assumes that Acceptance of the Application software will be against agreed pre-defined acceptance criteria. From these, Fujitsu Services will develop tests and agree with Post Office that the successful completion of these tests demonstrates that the system meets the acceptance criteria.
- 1.3 Pricing assumes that Network Services will be contracted to Fujitsu Services for the full contract term.
- 1.4 No support for the current Hub & Spoke pilots in the live estate has been provided for in HNG-X. It has been assumed that these sites will fail within the support structure of the Core & Outreach programme, and therefore subject to additional charges funded through a separate business case.
- 1.5 Post Office accepts that there is a known risk that the existing Pin Pad may not be suitable for use after 2010. Any costs associated with implementing an alternative solution will be additional to Fujitsu's estimates and subject to separate charges.
- 1.6 Fujitsu's proposal for HNG-X is based on the assumption that Fujitsu will operate one active data centre and one DR data centre. Prior to these data centres being migrated to HNG-X, the HNG-



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Assumptions v3.0



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X hardware will be utilised for HNG-X testing. Post the data centre migration, the DR data centre can be utilised for new business testing. Any major data centre failure will invoke the hardware for DR and freeze any current testing schedule.

- 1.7 Fujitsu's SI estimates are based on the assumption that a requirements capture and acceptance criteria definition process (Business Equivalence) similar to that described by Fujitsu in the document (Reference (TBA)) will be agreed by Post Office.
- 1.8 Fujitsu's estimates are based on the assumption that a significant number of the components for the solution will be designed, developed and tested offshore prior to integration activities in the UK.
- 1.9 SI Prepaid has been included up to 2009/10 only. No additional implementation or operating charges in respect of any SI development carried out under prepaid SI in 2008/9 and 2009/10 have been assumed.



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2. Systems Integration Charges

- 2.1 The Infrastructure and Application Development Charges are on the basis that Fujitsu Services retains IPR (defined as Fujitsu Services' Software in the Agreement).
- 2.2 HNG-X SI Development charges have been priced at the revised man day rates set out in the Proposal, and it has been assumed that the following levels of Prepaid SI will be utilised for the Development charges:

- 2005/06 £1.28M
 - 2006/07 £6.34M
 - 2007/08 £5.05M
- } at 2004/5 prices

NB although the annual values for Prepaid have reduced, the associated FTE remains as previously proposed under HNG.

- 2.3 Fujitsu SI estimates include:
- 2.3.1 An estimate of [£M] of "Additional SI" during 2005/06 in consideration of work required to implement S90 and S80 (over and above that funded from pre-pay) – (based on the understood scope at 15th April 2005, Branch Network Resilience and NBX retention fees
- 2.3.2 The Proposal includes development of S90 functionality within HNG-X. This is based on the understood scope as at 4 September 2005.
- 2.4 Development charges include work performed on HNG during 2004/05 and 2005/06 and re-used within HNG-X.
- 2.5 It is assumed that an SLT will be provided for counter hour availability in Core hours, under pinned by SLTs for help desk response times and the engineering call to fix. This will be agreed during commercial negotiations. The counter hours availability SLT will exclude any incidents due to faults with the IP Stream network technology where the call to fix will be on a reasonable endeavours basis



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3. Operational Service Charges

- 3.1 Pricing assumes that ADSL coverage is 86.7% for the year 2005/06, 96% in 2006/7 rising to 99% by 2014/15.
- 3.2 An agreed profile of "Force Majeure" and other branch closures (i.e. ever decreasing quantity of Post Office branches and associated Horizon counter positions) as reflected in the table below. The proposal assumes that the OBC Service only covers these closures, and any additional OBC services will be dealt with through Change Control.

Volumes as at March each year:

Current base	Y2005/6	Y2006/7	Y2007/8	Y2008/9	Y2009/10	Y2010/11	Y2011/12	Y2012/13	Y2013/14	Y2014/15
Branches	14,255	14,055	13,855	13,654	13,455	13,255	13,055	12,855	12,655	12,455
Counters	35,301	35,002	34,752	34,501	34,251	33,951	33,651	33,351	33,051	32,751

- 3.3 HNG-X Pricing assumes POL and POA Reference Data teams co-located (i.e. no change to the current arrangement)
- 3.4 Pricing is based on a shared Service Desk effective from April 2006, excluding IMT and CMT services, which are optional services. It has been assumed that calls will reduce to 11,000 per month from live branches once HNG-X counter migration is completed. Existing commercial terms are preserved which allow for Service Level relief if the volume of 13,000 calls per month is exceeded, or if additional calls above 11,000 per month are attributable to Post Office action or inaction or are deemed to be inappropriate or unreasonable. NB For the avoidance of doubt it should be noted that Help Desk call volumes include any calls logged via telephone and/or via the proposed electronic multimedia call logging solution
- 3.5 It is assumed that 10% of calls will be logged via multimedia post counter migration.
- 3.6 Audit retrieval framework is the same as now (as described in CCN 1135).
- 3.7 Operational and support costs for S90 functionality have been assumed in the Fujitsu Charges.
- 3.8 Impact of printing of Postal Orders has not been factored into MTBF calculations for printers.
- 3.9 Costings assume that both the Video Benchmarking and Transaction Time-based benchmarking mechanisms are in place although Video Benchmarking will be retained only until the end of rollout of HNG "X", after which it will be withdrawn.
- 3.10 POL will implement changes in reference data processes and systems to support operational savings in FS.

It is assumed that the objectives described in the first column of the table in Annex B of



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- Schedule 12 (improvement of reference data processes) shall have been implemented. If not, the financial impact as described in Schedule 10 shall apply.
- 3.11 Wireless data network is deployed as secondary network to all branches together with the equipment to support it (although some branches may not be able to receive the wireless data network for the chosen supplier it is more cost effective to roll it out to all branches) which will be installed as part of an existing engineering visit, prior to HNG-X counter migration. Where a wireless data network is not available no other secondary network has been included in the price. The exact coverage will be determined during rollout but is expected to exceed 95% of branches.
- 3.12 The secondary network is designed to cater for failures of the primary network at individual Branches and not for a total failure of the primary network at all Branches and therefore assumed to be only handle 20% of the total transaction workload,
- 3.13 Break fix service is delivered as now, with the exceptions that Fujitsu Services reserve the right to use Technical Couriers for this service and Fujitsu have assumed calls will be resolved as follows:
- 6.5% 4hour
 - 14% 8hour
 - 79% Next Day
 - 0.5% Reasonable endeavours (Remote Sites)
 - Monday – Friday 0800 to 1830
- 3.14 It is assumed that the principle remains where a Technology Refresh or a revised service plan, which may include charging for additional calls, applies when MTBF exceeds 120% of base-line for equipment in use prior to roll-out and 150% of re-baseline for counter migration. All existing equipment will be re-base-lined at HNG-X counter migration.
- 3.15 It is assumed that a mixed estate of counter equipment (even within a branch) is acceptable to Post Office. This may be needed if current equipment cannot be repaired economically or spares become unavailable, e.g. spares for the Bar Code Reader are expected to become unavailable post 2010 and a new model would be provided in lieu.
- 3.16 It is assumed that no cost is required for updating spares with new software builds following counter migration.
- 3.17 It is assumed that in the event of a 'catastrophic' (immediate and long term service threatening) failure beyond the foreseen MTBF failure rate of an element of the counter equipment that Post Office will authorise and fund a replacement or withdraw the requirement for the device.
- 3.18 It is assumed that no serialisation of spares movements and individual equipment locations will be maintained.
- 3.19 It is assumed that returned units may be "cannibalised" to extend the economic life of spares.



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Assumptions v3.0



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- 3.20 It is assumed that equipment from Branch closures will be retained for spares unless scrapped by mutual agreement.
- 3.21 Costs for a further replacement of the CMOS battery in the PC are included.
- 3.22 It is assumed that POL will migrate all existing FTMS clients to EDG, prior to Pilot.
- 3.23 It has been assumed that from 1 April 2007 that 85% of the ADSL Branches (less than 4 counters) are moved to a lower priced, IP Stream Home (50:1 contention ratio) ADSL service, with 15% of the ADSL Branches moved to IP Stream Office (20:1 contention ratio) ADSL service, and the remaining Branches on ISDN and fixed links (450 reducing)
- 3.24 Following counter migration, it has been assumed that all ADSL Branches (97% of the Branch estate) will move to the lower priced IP Stream Home service.
- 3.25 Data centre Business Continuity and DR testing will be performed during normal weekday, working hours, except full Data Centre fail-over test, and no testing environments will be available during such exercises.
- 3.26 Costs assume that any existing Optima LCD screens which are deemed by Fujitsu to be beyond economic repair after March 2008 will be replaced by an equivalent screen on failure.



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4. Training Capabilities

- 4.1 It is assumed that 100 business processes (product sales, back office functions) will be captured in the core training model available only at CTOs. Fujitsu has defined business processes as being business flows, and not individual business flow types. Examples would include:
- Sell a stamp and settle for cash
 - Complete a banking withdrawal (including simulated Pin Pad interaction) and settle with cash
 - Pay 3 bills (including bar code scan simulation) and pay with a cheque
 - Remit in two cash pouches containing £10,000 each
- 4.2 No upgrades to this training module are included in the pricing. It has been assumed that such costs will be provided for in the charges associated with future developments that require training.
- 4.3 Implementing Software upgrades for the CTO hardware will be carried out under similar provision to that of current Horizon.
- 4.4 It is not envisaged that the training capabilities will be deployable to the active branch counters but this could be considered at additional cost.



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Assumptions v3.0



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5. Technology Refresh

- 1.2 All existing counter hardware will be retained with the following exceptions:
 - 1.2.1 Due to obsolescence issues, Fujitsu will begin to replace the existing Optima LCD screen on failure with an alternative monitor from 2008;
 - 1.2.2 The number of luggables will be held at the current level. Any units that are beyond economic repair will be replaced by new technology. Any requirements for luggables above the current level will be subject to Change Control and will be implemented using new technology.
- 1.3 Fujitsu's charges assume that Microsoft XP will be supported to 2015.
- 1.4 The cost model assumes no more than 13,821 network end-points for branches.
- 1.5 Costs for consumables are not included.
- 1.6 Horizon End of Day will be moved to a consistent 19:00 before migrations start.
- 1.7 The migration tooling, costing and the migration timetable assume that no specific business accounting actions (e.g. stock unit rollover, branch liability process) are required as part of the migration of a branch to HNG-X. The sub-Postmaster will be expected to confirm that the Horizon counter closing position and HNG-X counter opening position are the same, through a process to be agreed with Post Office.



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Assumptions v3.0



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6. Planned Outline Timetable

- 6.1 Fujitsu Data Centre migration occurring Q3 2006/07 from Alliance & Leicester Wigan and Bootle sites to Fujitsu's Southern Data Centres (SDC01 and SCD02). Over the migration weekend, which will be a Bank Holiday weekend, there will be reduced resilience to the online Horizon Services during this period. Over the migration period online services and DR capability will be affected. No new OBC operations will be scheduled around this time and, preceding the main migration period, the POLFS service will not be available while it is migrated over a weekend.
- 6.2 IP Stream implemented April 2007
- 6.3 3 month Application Pilot October 2007
- 6.4 3 month counter migration starting January 2008
- 6.5 NT to XP Operating System rollout, 6 months starting April 2008



Horizon Service Partnership
Assumptions v3.0



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7. Architectural Assumptions

General

- 7.1 It is assumed that the requirements statements will define to a sufficient level, the functionality that must be supported in the new application, and the new application will be developed and accepted against these requirements.
- 7.2 Limited ongoing change is expected after the implementation of HNG-X. Once the new application has been rolled out, there will be minimal new application change per year. It is assumed that the rate of change is low enough to handle on a single shared test rig.

Architecture

- 7.3 HNG-X will be based on a centralised data model, whereby all transaction data is held centrally. This includes a dependency on an always available network, such that "no network = no branch trading". It is assumed that no facilities for offline trading will be provided.
- 7.4 It is assumed that the data centres with the new application will run in an Active/DR mode, with the DR data centre being used for testing. The active data centre in its own right is fully resilient. It is assumed that any business continuity testing is done during the week to reduce costs. This implies that there are one or two weeks per year where testing does not need to take place.
- 7.5 It is assumed that the services that must be available within two hours of a disaster are:
- ability to settle transactions.
 - critical online services (namely banking and debit cards).

Data Centre Migration

- 7.6 Horizon data centres (Wigan, Bootle) will be moved to Fujitsu data centres. It is assumed that during the migration period, Post Office will accept, no DR capability for critical services and also no DR capability for non critical services for a longer period of time following the main migration. There will also be no online services to branches during non core hours over the weekend.
- 7.7 It is acceptable to have no new OBC operations scheduled in the main week of Data Centre migration.
- 7.8 Post Office are responsible for ensuring that Link and Card account agree to move connections / configurations (including test connections for HNG-X testing) to the new data centres.

Network

- 7.9 A new router will be rolled out to mobile and fixed sites on Horizon prior to the new HNG-X counter application, however, whilst in Horizon mode, the gateway PC still acts as a gateway for the slave counters.
- 7.10 Once the router is rolled out, existing backup technology (ISDN, HSCSD on demand) is no longer required.



Horizon Service Partnership
Assumptions v3.0



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Counter

- 7.11 Quantum as a service will be an online transaction. The Siemens security components will be centralised (similar to PAF). Quantum will make use of the existing (customer side) Hypercom counter PIN Pad as its' Smart Card Reader, and will not (as currently) use the Clerk side Smart Card reader. Post Office will need to obtain agreement from Siemens to the revised security model and obtain updated specifications of the interfaces as part of the requirements phase.
- 7.12 Any limitations on the applications capabilities supported that were already agreed for HNG will also be acceptable for HNG-X. This includes some aspects that were proposed but not documented in the HNG CD, and for completeness some items that have already been dropped or are proposed to be dropped on Horizon. Details listed below:
- Session transfer will not be supported.
 - Session suspend will not be supported.
 - The Water Card product will be excluded before the start of migration to HNG-X.
 - The SPM Smart card product has already been dropped from Horizon and will not be supported by HNG-X.
 - The OBCS product has already been dropped from Horizon and will not be supported by HNG-X.
 - Training mode has already been dropped from Horizon and will not be supported by HNG-X.
 - LFS advice notes functionality shall be removed from Horizon and will not be supported by HNG-X.
 - The (currently unused) signature variants of Banking transactions will not be supported by HNG-X.
 - There shall be no Clerk copy of APS receipts
 - A number of other receipt and reporting simplifications will be made. *[Details to be agreed with Post Office]*.
 - Any other enhancements over existing capability listed in the HNG CD will not be supported unless explicitly stated and agreed. (For example, remote access by auditors, enhancements to memo view message text attributes).
- 7.13 Bubble help will not be supported. An alternative context sensitive help mechanism will be implemented provided a cost efficient alternative solution can be identified during the design phase.
- 7.14 The icon design service will not be continued for HNG-X. There will be a fixed, limited set of icons agreed during the UI design phase, which can be re-used as appropriate on desktop buttons in the HNG-X user interface. In particular, there will no longer be product specific bespoke icons.
- 7.15 It is assumed that there is no HNG-X equivalent to the Horizon Inbound Data File Delivery SLT due to the new application architecture, therefore the counter will not need to record reference data delivery metrics.



Horizon Service Partnership
Assumptions v3.0



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Central Database

- 7.16 A single branch database will be provided to support both transaction capture and branch reporting. There are some performance constraints that need to be addressed by reducing the reporting load on this database:
- The rate of report requests must be reduced through the removal of unnecessary reports and the consolidation of Stock Unit and Branch Daily/Weekly cut-off reports. *[Details to be agreed with Post Office].*
 - Confirmation messages for online transactions will only be harvested in batch mode at end of day. This means that the TES will not receive C2 messages in near real time, and Streamline payment file(s) will only be produced overnight.

Branch Migration

- 7.17 All counters within a branch will migrate from Horizon to HNG-X at the same time. It is assumed that the migration will not require any on site presence by Fujitsu staff.
- 7.18 It is assumed that the migration process can contain steps that are performed manually by the Post Office manager prior to and/or to cause the switch over from Horizon to HNG-X. *[Needs further detailed design and discussion with Post Office.]*
- 7.19 Reports are needed to show that the Branch accounting and stock position is maintained over the migration step. It is assumed that any exceptions highlighted will be corrected by manual adjustments on the HNG-X system later. (The assumption is that through both testing and pilot, such exceptions will be minimal).
- 7.20 There are certain categories of data that will not be migrated from Horizon to HNG-X. Examples are passwords, read / unread status of messages and planned orders. *[Details to be agreed with Post Office]*
- 7.21 It will not be possible to reverse the migration from Horizon to HNG-X once trading has begun at a migrated branch. (For the duration of the pilot only, reversion to Horizon will be by hardware swap out will and will require manual adjustment to the branch accounts for any transactions made on the HNG-X system. Any transactions performed on the HNG-X system will not be visible on the Horizon system).
- 7.22 The Horizon and HNG-X data will not be distinguished in the reconciliation and accounting positions.
- 7.23 During the migration period there will be additional parallel interfaces to some of the external Online Clients (i.e. E-Pay and Streamline).

Security

- 7.24 It is assumed that a full set of security requirements will be provided by Post Office at the business level that enables Fujitsu to build a system using technologies compatible with a retail environment using standard compliant capabilities.
- 7.25 Prior to the start of branch migration, digital signature checking of authorisation responses for Banking will be disabled in the Horizon counters. Post migration, all digital signatures checking

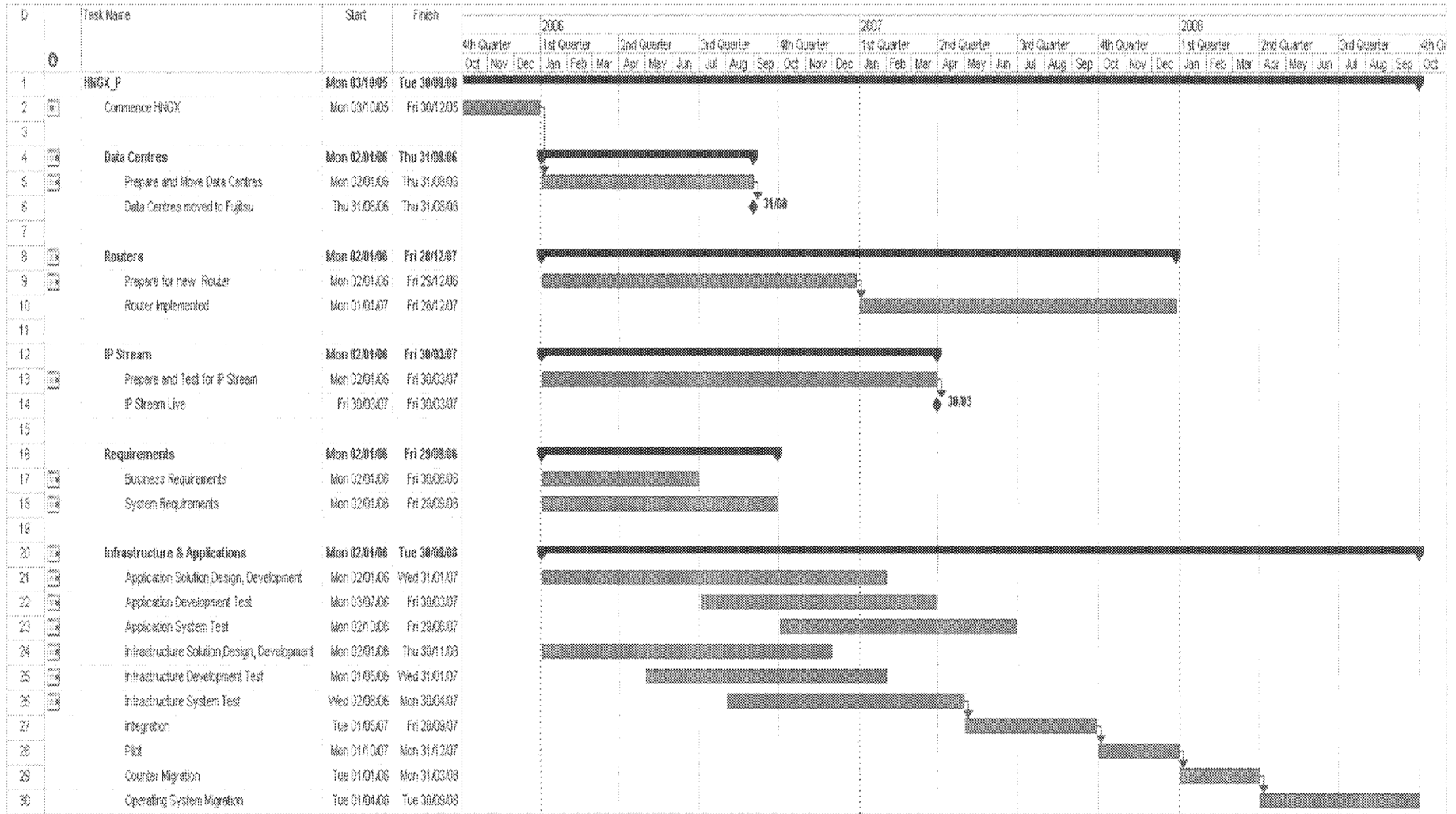


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will be removed from the Banking Authorisation agents (already disabled for PIN based transaction requests). As a result, the PIN pad may be necessary for deposit transactions.

External Interfaces

7.26 It is assumed that there will be no changes to any of the application interfaces to external Clients, including POL RDS, however, see also assumption above on connectivity during the branch migration period.



breakdown
?

PRICING MODEL - FUJITSU PRICING BASIS	Y 06	Y 07	Y 08	Y 09	Y 10	Y 11	Y 12	Y 13	Y 14	Y 15	TOTAL
TOTAL OPERATIONAL SERVICE CHARGES	65.3	55.2	52.0	39.3	33.3	32.7	32.2	31.2	30.8	30.5	402.4
SYSTEMS INTEGRATION											
Application and Infrastructure Development	1.3	10.1	5.4								16.9
Ongoing SI Support	11.1	8.9	8.6	7.8	7.5	7.2	7.1	6.9	6.8	6.6	78.3
Ongoing SI available for Prepay	7.1	6.3	5.0	4.0	4.0						26.5
SI Additional	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4
IMPLEMENTATION											
Capital costs for Counter and Data Centres	3.9	13.1	2.6	0.3	0.4	0.7	0.7	0.7	0.7	0.7	23.8
AVAILABILITY FEE AND CREDITS	10.0										10.0
IMPLEMENTATION FEES (Sch 10)	1.6	0.1									1.7
TOTAL	105.7	93.8	73.6	51.3	45.2	40.6	40.0	38.8	38.2	37.7	565.0

PRICING MODEL - INCLUDING VAT AND RPI	Y 06	Y 07	Y 08	Y 09	Y 10	Y 11	Y 12	Y 13	Y 14	Y 15	TOTAL
TOTAL OPERATIONAL SERVICE CHARGES	77.9	67.1	64.5	49.7	43.0	43.0	43.2	42.7	43.0	43.4	517.6
SYSTEMS INTEGRATION											
Application and Infrastructure Development	1.6	12.3	6.7								20.6
Ongoing SI Support	13.2	10.8	10.7	9.8	9.6	9.5	9.5	9.5	9.5	9.4	101.4
Ongoing SI available for Prepay	8.4	7.7	6.3	5.1	5.2						32.7
SI Additional	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.4
IMPLEMENTATION											
Capital costs for Counter and Data Centres	4.7	15.9	3.2	0.3	0.5	1.0	1.0	1.0	1.0	1.0	29.5
AVAILABILITY FEE AND CREDITS	11.9										11.9
IMPLEMENTATION FEES (Sch 10)	1.9	0.2									2.1
TOTAL	126.1	114.1	91.3	65.0	58.3	53.5	53.7	53.2	53.4	53.8	722.3

GRO 11.9 - Not subject to RPI.
Subject to RPI

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Horizon Next Generation - Plan X Proposed Direction



Agenda for today

- Summary of the main drivers - Liam
- The Solution Roadmap - Giacomo
- Revised Service Offerings - Dave B.
- Technology refresh considerations - Tim K.
- Discussion and agree next steps

Objectives for Today

- To discuss with Post Office the revised approach to achieving the appropriate cost curve for the business over the next ten years
- To agree base assumptions going forward to proposal
- To agree next steps including presentation of the proposal

Objectives for the overall Solution

- Reduce Operational Costs
 - Improve manageability of Business Applications
 - Improve serviceability of Business Applications
 - Reduce complexity for Mobile Engineering
 - Reduce costs for Network
 - Leverage Fujitsu Data Centres
- Minimise Capital Expenditures
 - Leverage existing Counter hardware and software
 - Reduce capital expenditure (Test/DR)
- No change to Business Outcomes and Processes
 - Seamless transition for PO Clients
 - Only look & feel change for counter clerks
- Application approach assumes co-located joint teams to capture requirements

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HNG X Solution Roadmap

Giacomo Piccinelli



Service Costs for the Current Applications

- Upsides of the Current Application
 - Look & feel familiar to clerks
 - Reflects current business processes and procedures

- Downsides of the Current Application
 - Yearly software maintenance fees
 - Data distribution causes high Engineering costs:
 - 80% longer time on site for data migration
 - Skilled engineers required for data recovery
 - Data distribution induces complexity in Data Centres:
 - Dual Live data centres
 - Data reconciliation
 - Communication model induces high costs for Network and Network management.
 - Software instability still causes up to 24000 calls per year
 - Complex software upgrades in branches
 - Tail management of software distribution
 - Complex / expensive testing facilities
 - Replicate data centres
 - Lack of modularity require extensive integration testing

Pivotal role of New Applications

- A set of New Applications is required that preserve the business capabilities offered by the current application, but at the same time improve the ability to manage and service the overall Business Solution
- The Application Architecture is based on:
 - Centralised Data
 - Message-level Security
 - Service-oriented modularisation of software components
 - High-performance middleware and database technology (Interstage/Oracle)
 - Established standards (Java and Web Services)
- Ability to cope with business change (e.g. AP-ADC)
- The new applications will be portable across platforms, and can provide the foundation for a future thin-client architecture

Overall Solution Architecture

The overall Solution Architecture includes:

- A resilient Network for all branches (ADSL + Mobile)
- Disaster Resilience and Test capabilities:
 - One locally-resilient data centre for Live
 - One copy of the live data centre to provide DR and Test capabilities
- Shared Help desk facility with electronic call logging

Leverage of Counter HW/SW

- The New Applications leverage the current **Counter Hardware**
- The decision to refresh counter hardware can be made dependant upon:
 - MTBF profile
 - Availability of spare parts (e.g. from other branches)
 - Future business requirements
- The New Applications can leverage the current **Operating System**
- The New Applications can be ported to a variety of Operating Systems (e.g. Windows XP and Linux)
- Main risk to consider is the Vendor roadmap for support
- The New Applications can rollout new hardware via
 - 'fit on fail'
 - Greatest benefit priority
 - Support mixed estate

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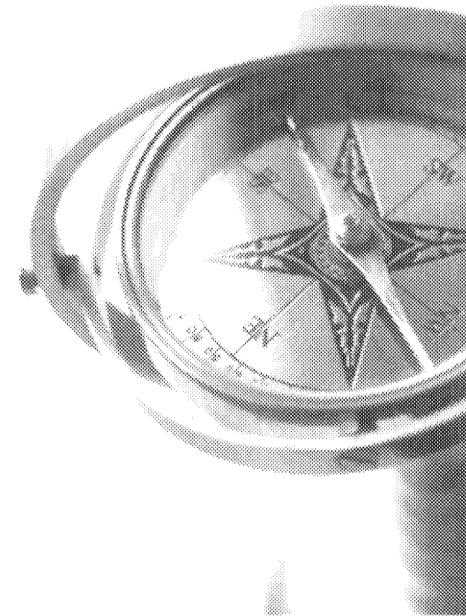
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HING X Services

Dave Baldwin



Service Architecture

- Service Management
 - Horizon Systems Helpdesk
 - Systems Management Centre and Third Line (SSC)
 - Data Centre Operations
 - Engineering Support
 - Network Service
 - Specific Services
- Service Overview
 - Volumes
 - Dependencies
 - Enhancements

Service Management

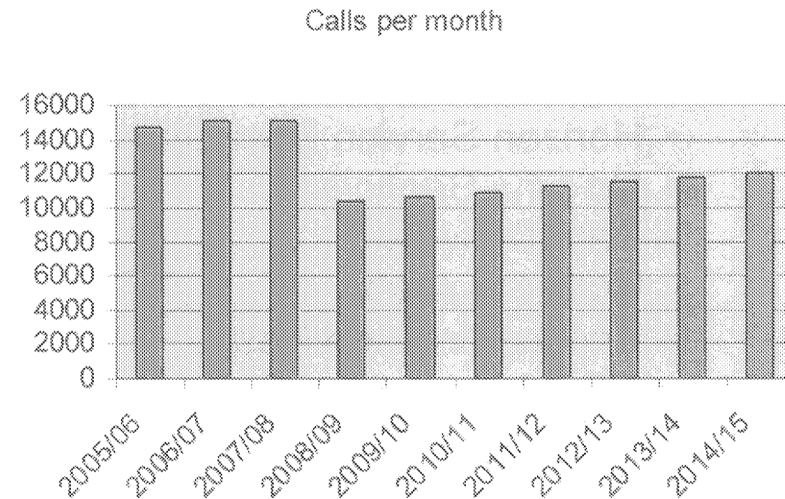
- Seamless dovetail of operational services
- ITIL conformant process
 - Service Support (Incident, Problem, Change, Configuration and Release Management)
 - Service Delivery (Availability, Capacity, Service Level and Financial Management)
- Focussed to specific Post Office services
- Volumetrics
 - No of Services
 - Types of technology
 - Resilience
 - Suppliers
 - Governance
 - Release schedules

Service Management

- Service Management Core Functions
 - Directorate
 - Service Introduction
 - Service Delivery
 - Horizon Service Desk and SMC (1st and 2nd line)
 - On Line Services
 - Data Delivery
 - Branch Issues
 - Engineering services
 - Service Support
 - Business Continuity
 - Data centre services
 - Network Services
 - SSC (3rd line)
- Focus on business impact – ie counter hours impacted

Horizons Systems Helpdesk

- UK Based Shared Service
 - Matched peaks
 - From 2007
- Service Level: 80% in 30 sec
- Fujitsu Standard Toolsets
- Volumes
 - 10% Multimedia Logging and update chasing on line (application dependent)
 - Rise due to hardware volumes
 - New router splits comms from PC
- New application 31 March 2008
- Service Options
 - Greater multimedia percentage
 - UK Dedicated desk
 - India off shore option
 - IMT/CMT option



Systems Management Centre (SMC) Third Line Support (SSC)

- SMC
 - Tivoli retained as the system management toolset
 - Increase in alert filtration
 - Reduction in tail management
 - 'Always on' application
 - Tighter link to help desk via incident management
 - Tighter link to third line via problem management
 - Reduced events from new application
 - Overall reduction from 50,000 to 25,000 alerts per week

- SSC
 - Move to the left
 - Problems from 650 to 350 per month
 - Share skills with 4th line / development

Data Centre Operations

- Move to Fujitsu data centres (SDC01 & 02)
- Wigan/Bootle to Fujitsu Data centres
 - Plumb SDC01 and SDC02 and new EMC disc arrays
 - Test servers create Wigan clone
 - Bootle move achieved over August 2006 bank holiday (window to August 2007)
 - Assume reduced resilience to online Horizon services on that Saturday, Sunday and Monday
 - Transfer Wigan data to SDC02
 - Build SDC01 with Bootle servers
 - 24 hours contingency (Bank Holiday Monday)
- Create HNG-X datacentres by June 2006
 - 1 live plus 1 test/DR (retail model)
 - 2 hour banking failover, 24 hour for other service
 - Live data in both live and DR
- BC and DR testing in working hours
 - Except full test
- Lower rate of change post 2010
 - Reduced operational cost
 - Reduced test rigs

Engineering Support

- Full incident management, engineering, logistics and repair
- Service metrics
 - 7% 4hour
 - 14% 8hour
 - 79% Next Day
- Monday – Friday 0800 to 1830
- SLT 95% achievement
- From April 2006
- Baseline MTBF at end of roll out
- 5% MTBF degradation per annum
- MTBF +50% risk with Fujitsu
- Supportability - see later
- New application 36 -> 20 mins on site
- Enhancements
 - Post Master swap out / return for repair
 - Service level segmentation

Engineering Service Levels

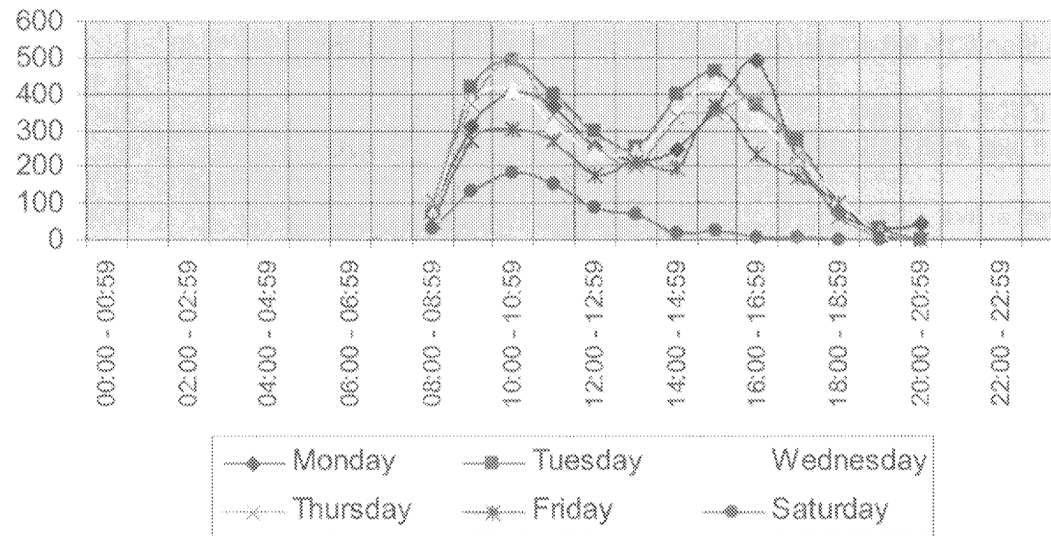
	A 4 hours	B 8 hours	C 18:30 next day	Remote next day	
Single Counter Branch					
- Counter PC	5.36%	0.00%	0.00%	0.16%	
- Pin pad	0.00%	1.90%	0.00%	0.06%	
- Bar code reader	0.00%	0.00%	0.28%	0.00%	
- Keyboard	0.00%	0.00%	0.91%	0.00%	
- Counter printer	0.00%	4.27%	0.00%	0.14%	
- Monitor	0.00%	1.11%	0.00%	0.04%	
- Back office printer	0.00%	0.00%	3.02%	0.00%	
- Router	0.32%	0.00%	0.00%	0.02%	
	5.69%	7.29%	4.21%	0.43%	17.61%
Multi Counter Branch (2 x counters)					
	A 4 hours	B 8 hours	C 18:30 next day	Remote next day	
- 'Last' Counter PC	0.00%	0.00%	0.00%	0.00%	
- Counter PC	0.00%	3.26%	0.00%	0.10%	
- First pinpad	0.00%	0.00%	0.89%	0.00%	
- Subsequent pinpad	0.06%	0.00%	3.14%	0.00%	
- First Bar code reader	0.00%	0.00%	0.83%	0.00%	
- Subsequent Bar code reader	0.00%	0.00%	0.02%	0.00%	
- First keyboard	0.00%	0.00%	2.23%	0.00%	
- Subsequent keyboard	0.00%	0.00%	0.04%	0.00%	
- First Counter printer	0.00%	0.00%	9.33%	0.00%	
- Subsequent Counter printer	0.00%	0.14%	0.00%	0.02%	
- First Monitor	0.00%	0.00%	2.31%	0.00%	
- Subsequent Monitor	0.00%	0.04%	0.00%	0.00%	
- Back office printer	0.00%	0.00%	3.30%	0.00%	
- Router	0.32%	0.00%	0.00%	0.02%	
	0.38%	3.44%	22.09%	0.14%	26.05%

Engineering Service Levels

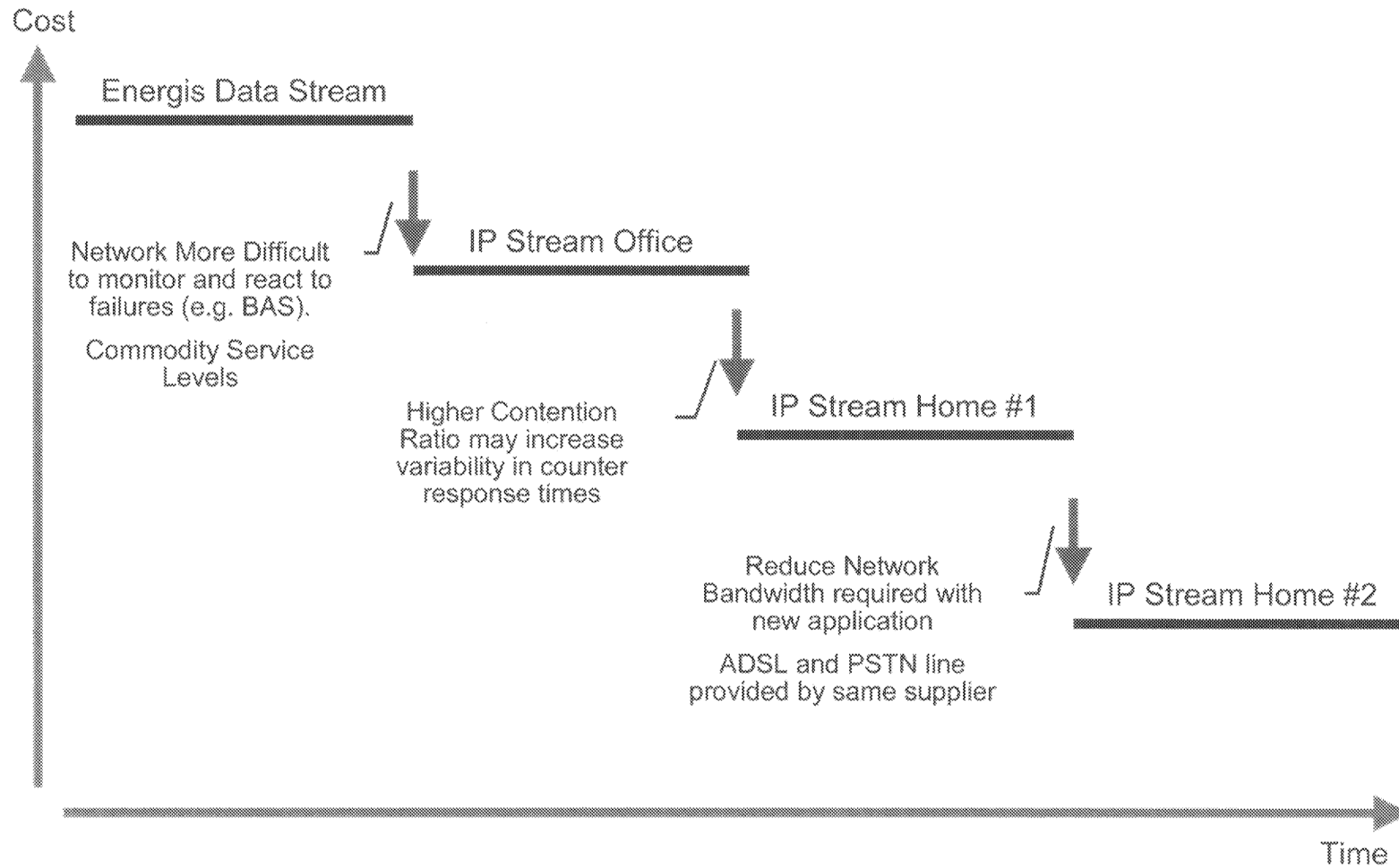
	A 4 hours	B 8 hours	C 18:30 next day	Remote next day
Multi Counter Branch (>2 x counters)	0.00%	0.00%	0.00%	0.00%
- 'Last' Counter PC	0.00%	2.89%	0.00%	0.00%
- Counter PC	0.00%	0.00%	4.86%	0.00%
- First pinpad	0.00%	0.00%	8.32%	0.00%
- Next pinpad if 50% left active	0.00%	0.00%	0.16%	0.00%
- Next pinpad if less than 50% left active	0.08%	0.00%	0.00%	0.00%
- First Bar code reader	0.00%	0.00%	2.61%	0.00%
- Next Bar code reader if 50% left active	0.00%	0.00%	0.04%	0.00%
- Next Bar code reader if less than 50% left active	0.00%	0.02%	0.00%	0.00%
- First keyboard	0.00%	0.00%	6.62%	0.00%
- Next keyboard if 50% left active	0.00%	0.00%	0.12%	0.00%
- Next keyboard if less than 50% left active	0.00%	0.06%	0.00%	0.00%
- First Counter printer	0.00%	0.00%	20.40%	0.00%
- Next Counter printer if 50% left active	0.00%	0.00%	0.40%	0.00%
- Next Counter printer if less than 50% left active	0.00%	0.20%	0.00%	0.00%
- First Monitor	0.00%	0.00%	5.77%	0.00%
- Next Monitor if 50% left active	0.00%	0.00%	0.08%	0.00%
- Next Monitor if less than 50% left active	0.00%	0.04%	0.00%	0.00%
- Back office printer	0.00%	0.00%	3.30%	0.00%
- Router	0.34%	0.00%	0.00%	0.00%
	0.43%	3.22%	52.69%	0.00%
Total Visits	6.50%	13.95%	78.99%	0.57%

Engineering Support – Next Day

- Average impact 3.3 hours additional
- Counter availability impact 0.17%
- 4.6 counter hours per counter per annum



ADSL Network Service Roadmap



Network Service

- IP Stream Home 50:1 for 85% (less than 4 counters)
 - Application network usage dependant
 - Remainder IP Stream 20:1, ISDN and fixed links (450 reducing).
- Backup Resilience
 - All branches of Orange mobile connectivity
 - 94% branch network coverage
- Branch router aids diagnosis and recovery
- Added value
 - Integration of disparate sources
 - Branch, Data centre, client, wireless backup
 - Single counter availability SLT
 - Single incident management & escalation point
 - Integrated with overall service
- Options for segmentation

IP Stream

Element	Datastream	IPStream
Transaction Time	End to End transaction time 1 second	Expected no more than 20% deviation, will be needed to be proven through pilot
Single Points of Failure	BT Master line box; BT line; BT DSLAM; BT VP/VC; BT ATM Switch; BT SDH mux; Energis SDH mux; Energis ATM switch; Energis BAS.	BT Master line box; BT line; BT DSLAM; BT VP/VC; BT ATM switch; BT BAS
BT Central	Not applicable.	On failure sites would reconnect over the alternate BT Central.
Site Distribution	Post offices are distributed across 19 BAS at POPs. There has been no incident of a POP failure since service inception.	Post offices are expected to be distributed across over 100 BAS at 9 POPs. The exact number of BAS is unavailable.
Sites Impacted on BAS Failure	Average is 740 per incident	Based on 4,000 sites, a maximum of 120 sites
Network Management	Energis NMC have visibility of all network elements within its infrastructure down to Virtual Path/virtual Circuit level.	Visibility down to the STM-1 delivery link interfaces (BT LTSs), plus test capabilities outlined below.
Network Node Manager (NNM)	Fujitsu are currently able to poll post office counters and ping each BAS.	There will be an IP connection to the post office counter allowing NNM to poll it. BT confirms that Fujitsu will NOT be able to Ping the BT BAS.
Reconnection Time	Following a BAS failure post offices take between 5-10 minutes to reconnect to the Energis service depending on router loading.	Experience of IPStream indicates that reconnection will be up to 15 minutes based on a heavily loaded BT BAS.

IP Stream

Element	Datastream	IPStream
Test Capability	Energis is currently uses the Woosh One Shot Test to interrogate the physical, ADSL and IP layers of the service.	In addition to the One Shot Test the following will be available: ADSL IP Check will check that a post office counter is switched on and logged in. The Radius Log Analyser checks logs for successful failed logon attempts.
Repair Target Time	Standard Care = Working hours support and 40 clock hours clear Enhanced Care = 24x7 support, 3 hour response and 20 clock hours clear.	Same as Datastream.
Service Availability	99.6% average site availability.	Same as Datastream.
Incident Management	Reported via Powerhelp. A daily conference call is held between Energis and Fujitsu to identify priorities and escalations.	Same as Datastream.
Major Incident Communication	Fujitsu aims to provide pro-active communication of a major service failure in its infrastructure within 15 minutes during normal working hours.	The same is true of IPStream however more key services elements are managed by BT where there is no commitment available.
Management Reporting	A summary of major incidents, fault reasons and performance against SLA are reported in the monthly report. A major incident report is provided by close of the next working day or within 24 hours if possible.	The monthly report will analyse Remote Connect IPStream in the same way as a separate service. Major incident reports will be available for the IPStream service but the level of detail regarding BT service elements is expected to be limited.

Specific Services

- OBC
 - Base capability
 - Volume driven
- Security
 - Reduced in line with architecture
 - Continued prosecution support service
- Reference Data
 - As current service
- Reconciliation
 - As current service
- Management Information
 - As current service
 - Potential to re-evaluate

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HNG X Hardware Retention

Tim Kitchen



Counter Hardware Retention

- Drivers
- Basis
- Risks & Mitigation
- Product Specifics

Drivers for decision

- Avoid capital costs
 - Including unnecessary purchases
 - Retail model of 'Sweat the Assets'
- Avoid roll out costs
- Remove need for pilot of roll out
- Remove roll out scalability risks
- Smooth price curve

Basis for decision

- Currently working
- Ability to support to 2015
 - Confirmed by Fujitsu Logistics
- Fujitsu Experience
 - 386 and 486 still supported
- Current failure rates acceptable
- Application supports mix estate
- POL willing to have mixed estate
 - Change in aesthetics ?

Risks and Mitigations

- Beyond economic repair or spares unavailable
 - Retain equipment from closures for spares
 - Replace on fail with different model
 - Top up for spares loop
 - Application dependant
- Failure rate becomes unacceptable – quality of service
 - Prioritise replacement program
 - Analysis failures
 - Partial and appropriate refresh
 - Business case
- MTBF degradation faster than predicted
 - Up to 50% at Fujitsu risk
 - Above 50% excess call charge to POL

Product Specifics

- PC
 - Battery replacement included for 2011/2012
- Touch Screen
 - Spares unavailable 2008
 - Costs included for replace on fail in spares loop
- Luggables
 - Beyond economic repair 2010
 - Replace with laptop and XP
 - As required by rural strategy
- Counter Printer
 - Failure rate unacceptable ?
 - Separate business case
- Barcode Reader
 - Spares unavailable post 2010
 - Replace on fail with new

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H N G "X" Commercial Assumptions Log v 2.93

September 2005



PRICING MODEL - FUJITSU PRICING BASIS	Y 06	Y 07	Y 08	Y 09	Y 10	Y 11	Y 12	Y 13	Y 14	Y 15	TOTAL
HNG-X DECEMBER 2005											
TOTAL OPERATIONAL SERVICE CHARGES	64.6	57.9	52.9	46.0	34.4	33.2	32.2	31.2	31.3	30.6	414.3
SYSTEMS INTEGRATION											
Application and Infrastructure Development	0.8	5.7	8.2	1.2							15.9
Ongoing SI Support	10.7	8.8	8.7	10.0	6.9	7.2	7.1	6.9	6.7	6.6	79.5
Ongoing SI available for Prepay	7.3	6.3	5.0	4.0	4.0						26.7
SI Additional	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4
IMPLEMENTATION											
Capital costs for Counter and Data Centres	0.1	10.1	3.8	6.1	0.4	0.7	0.7	0.7	0.7	0.7	24.0
AVAILABILITY FEE AND CREDITS	10.0										10.0
IMPLEMENTATION FEES (Sch 10)	1.6	0.1									1.7
TOTAL	100.3	88.9	78.7	67.3	45.6	41.1	40.0	38.9	38.7	37.9	577.4

HNG-X December 2005 (revised programme plan)

(All these costs exclude the 2005/6 supplementary payment and schedule 10/7.1 implementation payments that are common to all cases and were excluded from the business case.)

	Y 06	Y 07	Y 08	Y 09	Y 10	Y 11	Y 12	Y 13	Y 14	Y 15	TOTAL
£m Without inflation, excluding VAT											
One Off Costs											
Subject to Inflation	0.8	7.2	9.1	5.4	0.0	0.0	0.0	0.0	0.0	0.0	
Fixed Price	0.1	8.6	2.9	1.9	0.4	0.7	0.7	0.7	0.7	0.7	
Recurring costs	82.6	73.0	66.7	60.0	45.2	40.3	39.3	38.2	36.0	37.2	
Total	83.4	88.8	78.7	67.3	45.6	41.1	40.0	38.9	38.7	37.9	560.3
RPI Factor	103.5%	105.6%	107.7%	109.8%	112.0%	114.3%	116.6%	118.9%	121.3%	123.7%	
£m after inflation, excluding VAT											
One Off Costs											
Subject to Inflation	0.8	7.6	9.8	6.0	0.0	0.0	0.0	0.0	0.0	0.0	
Fixed Price	0.1	8.6	2.9	1.9	0.4	0.7	0.7	0.7	0.7	0.7	
Recurring costs	85.5	77.1	71.8	65.9	50.7	46.1	45.8	45.4	46.1	46.0	
Total	86.3	93.2	84.5	73.7	51.1	46.8	46.5	46.1	46.8	46.7	621.8
Irrecoverable VAT Rate	15.225%										
£m after inflation, including VAT											
One Off Costs											
Subject to Inflation	0.8	7.6	9.8	6.0	0.0	0.0	0.0	0.0	0.0	0.0	
Fixed Price	0.1	8.6	2.9	1.9	0.4	0.7	0.7	0.7	0.7	0.7	
Recurring costs	85.5	77.1	71.8	65.9	50.7	46.1	45.8	45.4	46.1	46.0	
Total	86.3	93.2	84.5	73.7	51.1	46.8	46.5	46.1	46.8	46.7	621.8



Introduction

This document sets out the assumptions that support Fujitsu's commercial proposal for HNG "X". PO (SG) highlighting indicates identical text to v2.2 of Assumptions document. Also some SG comments added.

1. General Assumptions

- 1.1 Fujitsu's charges do not reflect:
- 1.1.1 Any Additional SI from April 2006 onwards. Any such spend has been assumed to be subject to separate business case justification by Post Office
- 1.1.2 Money's currently retained by Post Office relating to NBX but expected to be invoiced and paid in 2005/6
- 1.1.3 VAT and RPI increases. However for comparison purposes Fujitsu's charges are also presented to include RPI and VAT at the assumed rates used by Post Office in their evaluation model [HNG "X" Gap Analysis xxx provided by Keith Baines on 20th June 2006] [DN KB suggested irrecoverable VAT rate should not be included and that POL will advise post 2004/5 inflation factor – previously 2%. Needs further clarification]
- 1.1.3.1 In respect of Capital items, RPI increases for 2004/05 are not applicable to the HNG "X" estimates for Data Centre hardware procurement, but is applicable to Software and other Hardware items.
- 1.2 HNG "X" is assume that Acceptance of the Application Software will be against agreed pre-define acceptance criteria. From these, Fujitsu Services will develop tests and agree with Post Office that the successful completion of these tests demonstrates that the system meets the acceptance criteria
- 1.3 Pricing assumes that Network Services will be contracted to Fujitsu Services for the full contract term
- 1.4 No support for the current Hub & Spoke pilots in the live estate has been provided for in HNG "X". It has been assumed that these sites will fall within the support structure of the Core & Outreach programme, and therefore subject to additional charges funded through a separate business case.

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- 1.5 ~~Post Office accepts that there is a known risk that the existing hardware may not be available for use after 2010. Any costs associated with implementing an alternative solution will be additional to Fujitsu's estimates and subject to separate charges.~~
- 1.6 Fujitsu's proposal for HNG "X" is based on the assumption that Fujitsu will operate one active data centre and one DR data centre. Prior to these data centres being migrated to HNG "X", the HNG "X" hardware will be utilised for HNG "X" testing. Post the data centre migration, the DR data centre can be utilised for new business testing. Any major data centre failure will invoke the hardware for DR and freeze any current testing schedule.
- 1.7 Fujitsu's SI estimates are based on the assumption that a requirements capture and acceptance criteria definition process (Business Equivalence) similar to that described by Fujitsu in the document (Reference (tba)) will be agreed by Post Office. *when will we get this*
- 1.8 Fujitsu's estimates are based on the assumption that a significant number of the components for the solution will be designed, developed and tested offshore prior to integration activities in the UK. *what is significant?*
- 1.9 SI Prepaid has been included up to 2009/10 only. No additional implementation or operating charges in respect of any SI development carried out under prepaid SI in 2008/9 and 2009/10 have been assumed.



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2. Systems Integration Charges

- 2.1 [Redacted]
- 2.2 HNG "X" SI Development charges have been priced at the revised man day rates set out in the Proposal, and it has been assumed that the following levels of Prepaid SI will be utilised for the Development charges:
- | | |
|---------|--------|
| 2005/06 | £1.28M |
| 2006/07 | £6.34M |
| 2007/08 | £5.05M |
- n.b. although the annual values for Prepaid has reduced, the associated FTE remains as previously proposed under HNG.
- 2.3 Fujitsu SI estimates include:
- 2.3.1 An estimate of [£M] of Additional SI during 2007/08 in consideration of work required to implement S90 and S80 (over and above that funded from pre-pay) based on the understood scope at 16th April 2006, Branch Network Resilience and NBX retention fees
- 2.3.2 The Proposal includes development of S90 functionality within HNG "X". This is based on the understood scope as at 4 September 2005.
- 2.4 Development charges include work performed on HNG during 2004/05 and 2005/06 and re-used within HNG "X".

skt
// am
rise?
need to
see what
they are.



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3. Operational Service Charges

- 3.1 [Redacted]
- 3.2 An agreed profile of "Force Majeure" and other branch closures (a never decreasing quantity of Post Office branches and associated Horizon counter positions) as reflected in the table below. The proposal assumes that the OBC Service only covers these closures, and any additional OBC services will be dealt with through Change Control.

/// Cost
/// Increase
?

Volumes as at March each year:

Current base	Y2005/6	Y2006/7	Y2007/8	Y2008/9	Y2009/10	Y2010/11	Y2011/12	Y2012/13	Y2013/14	Y2014/15
Branches	14,265	14,055	13,855	13,654	13,455	13,255	13,055	12,855	12,655	12,455
Counters	35,301	35,002	34,752	34,501	34,251	33,951	33,651	33,351	33,051	32,751

- 3.3 HNG "X" Pricing assumes POL and POA Reference Data teams relocated (i.e. no change to the current arrangement)
- 3.4 Pricing is based on a shared Service Desk effective from April 2006, excluding IMT and CMT services, which are optional services. It has been assumed that calls will reduce to 11,000 per month from live branches once HNG "X" counter migration is completed. Existing commercial terms are preserved which allow for Service Level relief if (i) a volume of 10,000 calls per month is exceeded, or if additional calls above 11,000 per month are attributable to Post Office action (inaction or are deemed to be inappropriate or unreasonable). NB For the avoidance of doubt should a reader that Help Desk call volumes include any calls logged via telephone and/or via the proposed electronic multimedia call logging solution.
- 3.5 It is assumed that 10% of calls will be logged via multimedia post counter migration.
- 3.6 Audit retrieval framework is the same as now (as described in CON 1135)
- 3.7 Operational and support costs for S90 functionality have been assumed in the Fujitsu Charges
- 3.8 Impact of printing of Push Orders has not been factored into MTR calculations for printers
- 3.9 Costings assume that both the Video Benchmarking and Transaction Time-based benchmarking mechanisms are in place although Video Benchmarking will be retained only until the end of rollout of HNG "X" after which it will be withdrawn.
- 3.10 POL will implement changes in reference data processes and systems to support operational savings in ES. It is assumed that the objectives described in the first column of the table in Annex B of

how does this
compare with
Brow
in MH
Summary
of 6/14?



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- Schedule 2 (improvement of reference data processes) shall have been implemented. The financial impact as described in Schedule 10 shall apply.
- 3.11 Wireless data network is deployed as secondary network to all branches together with the equipment to support it (although some branches may not be able to receive the wireless data network for the chosen supplier, it is more cost effective to roll it out to all branches) which will be installed as part of an existing engineering visit, prior to HNG "X" counter migration. Where a wireless data network is not available no other secondary network has been included in the price. The exact coverage will be determined during rollout but is expected to exceed 95% of branches.
- 3.12 The secondary network is designed to cater for failures of the primary network at individual Branches and not for a total failure of the primary network at all Branches and therefore assumed to be only handle 20% of the total transaction workload,
- 3.13 Break fix service is delivered as now, with the exceptions that Fujitsu Services reserve the right to use Technical Councils for this service and Fujitsu have assumed calls will be resolved as follows:
- 6.5% 4hour
 - 14% 8hour
 - 79% Next Day
 - 0.5% Reasonable endeavours (Remote Sites)
 - Monday – Friday 0800 to 1830
- 3.14 It is assumed that the principle remains where a Technology Refresh or a revised service plan, which may include charging for additional calls, applies when MTBF exceeds 120% of base-line for equipment in use prior to roll-out and 150% of re-baseline for counter migration. All existing equipment will be re-base-lined at HNG "X" counter migration.
- 3.15 It is assumed that a mixed estate of counter equipment (even within a branch) is acceptable to Post Office, This may be needed if current equipment cannot be repaired economically or spares become unavailable, e.g. spares for the Bar Code Reader are expected to become unavailable post 2010 and a new model would be provided in lieu.
- 3.16 It is assumed that no cost is required for updating spares with new software builds following counter migration. // Whose risk?
- 3.17 It is assumed that no serialisation of spares movements and individual equipment locations will be maintained. // Why not? → this increases MTBF because rovers are not spotted + re-maint.
- 3.18 It is assumed that returned units may be "cannibalised" to extend the economic life of spares.
- 3.19 It is assumed that equipment from Branch closures will be retained for spares unless scrapped by mutual agreement. — Cont. Implication??
- 3.20 Costs for a further replacement of the CMOS battery in the PC are included.
- 3.21 It is assumed that POL will migrate all existing FTMS clients to EDC, prior to Pilot.



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- 3.22 It has been assumed that from 1 April 2007 that 85% of the ADSL Branches (less than 4 counters) are moved to a lower priced, IP Stream Home (50:1 contention ratio) ADSL service, with 15% of the ADSL Branches moved to IP Stream Office (20:1 contention ratio) ADSL service, and the remaining Branches on ISDN and fixed links (450 reducing)
- 3.23 Following counter migration, it has been assumed that all ADSL Branches (97% of the Branch estate) will move to the lower priced IP Stream Home service.
- 3.24 ~~Data centre Business Continuity and DR testing will be performed during normal weekday working hours~~ except full Data Centre fail-over test, and no testing environments will be available during such exercises.
- 3.25 ~~Costs assume that any existing Optima LCD screens which are deemed by Fujitsu to be beyond economic repair after March 2008 will be replaced by an equivalent screen on failure.~~



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4. Training Capabilities

4.1 It is assumed that 100 business processes (product sales, back office functions) will be captured in the core training mode available only at CTOs. Fujitsu has defined business processes as being business flows, and not individual business flow types. Examples would include:

- Sell a stamp and settle for cash
- Complete a banking withdrawal (including simulated Pin Pad interaction) and settle with cash
- Pay 3 bills (including bar code scan simulation) and pay with a cheque
- Remit in two cash pouches containing £10,000 each

4.2 No upgrades to this training module are included in the pricing. It has been assumed that such costs will be provided for in the charges associated with future developments that require training.

4.3 Implementing Software upgrades for the CTO hardware will be carried out under similar provision to that of current Horizon — eds??

4.4 It is not envisaged that the training capabilities will be deployable to the active branch counters but this could be considered at additional cost.

rollout times??



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5. Technology Refresh

- 5.1 All existing counter hardware will be retained with the following exceptions:
 - 5.1.1 ~~Due to obsolescence issues, Fujitsu will begin to replace the existing Optima LCD screens on failure with an alternative monitor from 2008;~~
 - 5.1.2 The number of luggables will be held at the current level. Any units that are beyond economic repair will be replaced by new technology. Any requirements for luggables above the current level will be subject to Change Control and will be implemented using new technology.
- 5.2 Fujitsu's charges assumes that Microsoft XP will be supported to 2015. — Are they moving to XP?
- 5.3 ~~The cost model assumes no more than 13.82 network end points per branches~~ of Giacomo slide
- 5.4 ~~Costs for consumables are not included.~~ "Levy of Counter this/sw"
- 5.5 ~~Horizon End of Day will be moved to a consistent 19:00 before migrations start.~~ from 30 August.
- 5.6 ~~The migration tooling, costing and the migration timetable assume that no specific business accounting actions (e.g. stock unit rollover, branch liability process) are required as part of the migration of a branch to HNG "X".~~ The sub-Postmaster will be expected to confirm that the Horizon counter closing position and HNG "X" counter opening position are the same, through a process to be agreed with Post Office.

implication for luggables in short term.

Are they moving to XP?
of Giacomo slide
"Levy of Counter this/sw"
from 30 August.



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6. Planned Outline Timetable

- 6.1 Fujitsu Data Centre migration occurring Q3 2006/07 from Alliance & Leicester Wigan and Bootle sites to Fujitsu's Southern Data Centres (SDC01 and SCD02). Over the migration weekend, which will be a Bank Holiday weekend, there will be reduced resilience to the online Horizon Services during this period. Over the migration period online services and DR capability will be affected. No new OBC operations will be scheduled around this time and, preceding the main migration period, the POLFS service will not be available while it is migrated over a weekend.
- 6.2 IP Stream implemented April 2007
- 6.3 3 month Application Pilot October 2007
- 6.4 3 month counter migration starting January 2008
- 6.5 NT to XP Operating System rollout, 6 months starting April 2008



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THE POSSIBILITIES ARE INFINITE

~~H N G "X"~~ Horizon Service
Partnership
~~Commercial~~
~~Log v 2.93~~ v3.0

Doing Our Bit to Help Make
the Big Things Happen



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Introduction

This document sets out the assumptions that support Fujitsu's commercial proposal for HNG-X's Service Partnership.

1. General Assumptions

- 1.1 Fujitsu's charges do not reflect:
 - 1.1.1 Any "Additional SI" from April 2006 onwards. Any such spend has been assumed to be subject to separate business case justification by Post Office.
 - 1.1.2 Moneys currently retained by Post Office relating to NBX but expected to be invoiced and paid in 2005/6.
 - 1.1.3 VAT and RPI increases. However for comparison purposes Fujitsu's charges are also presented to include RPI and VAT at the assumed rates used by Post Office in their evaluation model ("HNG-X" Gap Analysis 0-xis" provided by Keith Baines on 20th June 2005). [DN KB suggested irrecoverable VAT rate should not be included and that POL will advise post 2004/5 inflation factor - previously 2% - Needs at 2.00% per annum post 2005/06 and irrecoverable VAT at 15.225% (which may need further clarification) by POL.]
 - 1.1.1.1 1-1.3.4 In respect of Capital items, RPI increases for 2004/05 are not applicable to the HNG-X's estimates for Data Centre hardware procurement, but is applicable to Software and other Hardware items.
- 1.2 HNG-X's FS assumes that Acceptance of the Application software will be against agreed pre-defined acceptance criteria. From these, Fujitsu Services will develop tests and agree with Post Office that the successful completion of these tests demonstrates that the system meets the acceptance criteria.
- 1.3 Pricing assumes that Network Services will be contracted to Fujitsu Services for the full contract term.
- 1.4 No support for the current Hub & Spoke pilots in the live estate has been provided for in HNG-X's. It has been assumed that these sites will fall within the support structure of the Core &



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Outreach programme, and therefore subject to additional charges funded through a separate business case.

- 1.5 Post Office accepts that there is a known risk that the existing Pin Pad may not be suitable for use after 2010. Any costs associated with implementing an alternative solution will be additional to Fujitsu's estimates and subject to separate charges.
- 1.6 Fujitsu's proposal for HNG-X is based on the assumption that Fujitsu will operate one active data centre and one DR data centre. Prior to these data centres being migrated to HNG-X, the HNG-X hardware will be utilised for HNG-X testing. Post the data centre migration, the DR data centre can be utilised for new business testing. Any major data centre failure will invoke the hardware for DR and freeze any current testing schedule.
- 1.7 Fujitsu's SI estimates are based on the assumption that a requirements capture and acceptance criteria definition process (Business Equivalence) similar to that described by Fujitsu in the document (Reference (TBA)) will be agreed by Post Office. *have we had this yet?*
- 1.8 Fujitsu's estimates are based on the assumption that a significant number of the components for the solution will be designed, developed and tested offshore prior to integration activities in the UK. *meaning?*
- 1.9 SI Prepaid has been included up to 2009/10 only. No additional implementation or operating charges in respect of any SI development carried out under prepaid SI in 2008/9 and 2009/10 have been assumed.



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2. Systems Integration Charges

- 2.1 The Infrastructure and Application Development Charges are on the basis that Fujitsu Services retains IPR (defined as Fujitsu Services' Software in the Agreement). *|| SKM or note for us.*
- 2.2 HNG ~~to X~~ SI Development charges have been priced at the revised man day rates set out in the Proposal, and it has been assumed that the following levels of Prepaid SI will be utilised for the Development charges:
- * — 2005/06 £1.28M
 - * — 2006/07 £6.34M
 - * — 2007/08 £5.05M

n.b. NB although the annual values for Prepaid has reduced, the associated FTE remains as previously proposed under HNG.

- 2.3 Fujitsu SI estimates include:
- 2.3.1 An estimate of [£M] of "Additional SI" during 2005/06 in consideration of work required to implement S90 and S80 (over and above that funded from pre-pay) – [based on the understood scope at 15th April 2005, Branch Network Resilience and NBX retention fees
- 2.3.2 The Proposal includes development of S90 functionality within HNG ~~to X~~. This is based on the understood scope as at 4 September 2005.
- 2.4 Development charges include work performed on HNG during 2004/05 and 2005/06 and re-used within HNG ~~to X~~. *change that?*
- 2.5 It is assume that an SLT will be provided for counter hour availability in Core hours, under pinned by SLTs for help desk response times and the engineering call to fix. This will be agreed during commercial negotiations. The counter hours availability SLT will exclude any incidents due to faults will the IP Stream network technology where the call to fix will be on a reasonable endeavours basis



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3. Operational Service Charges

- 3.1 Pricing assumes that ADSL coverage is 86.7% for the year 2005/06, 96% in 2006/7 rising to 99% by 2014/15.
- 3.2 An agreed profile of "Force Majeure" and other branch closures (i.e. ever decreasing quantity of Post Office branches and associated Horizon counter positions) as reflected in the table below. The proposal assumes that the OBC Service only covers these closures, and any additional OBC services will be dealt with through Change Control.

Cost Increase?

Volumes as at March each year:

Current base	Y2005/6	Y2006/7	Y2007/8	Y2008/9	Y2009/10	Y2010/11	Y2011/12	Y2012/13	Y2013/14	Y2014/15
Branches	14,255	14,055	13,855	13,654	13,455	13,255	13,055	12,855	12,655	12,455
Counters	35,301	35,002	34,752	34,501	34,251	33,951	33,651	33,351	33,051	32,751

- 3.3 HNG-X: Pricing assumes POL and POA Reference Data teams co-located (i.e. no change to the current arrangement)
- 3.4 Pricing is based on a shared Service Desk effective from April 2006, excluding IMT and CMT services, which are optional services. It has been assumed that calls will reduce to 11,000 per month from live branches once HNG-X counter migration is completed. Existing commercial terms are preserved which allow for Service Level relief if the volume of 13,000 calls per month is exceeded, or if additional calls above 11,000 per month are attributable to Post Office action or inaction or are deemed to be inappropriate or unreasonable. NB For the avoidance of doubt it should be noted that Help Desk call volumes include any calls logged via telephone and/or via the proposed electronic multimedia call logging solution
- 3.5 It is assumed that 10% of calls will be logged via multimedia post counter migration.
- 3.6 Audit retrieval framework is the same as now (as described in CCN 1135).
- 3.7 Operational and support costs for S90 functionality have been assumed in the Fujitsu Charges.
- 3.8 Impact of printing of Postal Orders has not been factored into MTBF calculations for printers.

have they the counter with 13000 = 11k sum of 6/17?



THE POSSIBILITIES ARE INFINITE

- 3.9 Costings assume that both the Video Benchmarking and Transaction Time-based benchmarking mechanisms are in place although Video Benchmarking will be retained only until the end of rollout of HNG "X", after which it will be withdrawn.
- 3.10 POL will implement changes in reference data processes and systems to support operational savings in FS.
It is assumed that the objectives described in the first column of the table in Annex B of Schedule 12 (improvement of reference data processes) shall have been implemented. If not, the financial impact as described in Schedule 10 shall apply.
- 3.11 Wireless data network is deployed as secondary network to all branches together with the equipment to support it (although some branches may not be able to receive the wireless data network for the chosen supplier it is more cost effective to roll it out to all branches) which will be installed as part of an existing engineering visit, prior to HNG "X" counter migration. Where a wireless data network is not available no other secondary network has been included in the price. The exact coverage will be determined during rollout but is expected to exceed 95% of branches.
- 3.12 The secondary network is designed to cater for failures of the primary network at individual Branches and not for a total failure of the primary network at all Branches and therefore assumed to be only handle 20% of the total transaction workload.
- 3.13 Break fix service is delivered as now, with the exceptions that Fujitsu Services reserve the right to use Technical Couriers for this service and Fujitsu have assumed calls will be resolved as follows:
 - 6.5% 4hour
 - 14% 8hour
 - 79% Next Day
 - 0.5% Reasonable endeavours (Remote Sites)
 - Monday – Friday 0800 to 1830
- 3.14 It is assumed that the principle remains where a Technology Refresh or a revised service plan, which may include charging for additional calls, applies when MTBF exceeds 120% of base-line for equipment in use prior to roll-out and 150% of re-baseline for counter migration. All existing equipment will be re-base-lined at HNG "X" counter migration. // Mean? in 120% a wise postion 150% a
- 3.15 It is assumed that a mixed estate of counter equipment (even within a branch) is acceptable to Post Office. This may be needed if current equipment cannot be repaired economically or spares become unavailable, e.g. spares for the Bar Code Reader are expected to become unavailable post 2010 and a new model would be provided in lieu.
- 3.16 It is assumed that no cost is required for updating spares with new software builds following counter migration. // what risk



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THE POSSIBILITIES ARE INFINITE

- 3.17 It is assumed that in the event of a 'catastrophic' (immediate and long term service threatening) failure beyond the foreseen MTBF failure rate of an element of the counter equipment that Post Office will authorise and fund a replacement or withdraw the requirement for the device.
- 3.18 3-17- It is assumed that no serialisation of spares movements and individual equipment locations will be maintained.
- 3.19 3-18- It is assumed that returned units may be "cannibalised" to extend the economic life of spares.
- 3.20 3-19- It is assumed that equipment from Branch closures will be retained for spares unless scrapped by mutual agreement. — cost of sharing?
- 3.21 3-20- Costs for a further replacement of the CMOS battery in the PC are included.
- 3.22 3-21- It is assumed that POL will migrate all existing FTMS clients to EDG, prior to Pilot.
- 3.23 3-22- It has been assumed that from 1 April 2007 that 85% of the ADSL Branches (less than 4 counters) are moved to a lower priced, IP Stream Home (50:1 contention ratio) ADSL service, with 15% of the ADSL Branches moved to IP Stream Office (20:1 contention ratio) ADSL service, and the remaining Branches on ISDN and fixed links (450 reducing)
- 3.24 3-23- Following counter migration, it has been assumed that all ADSL Branches (97% of the Branch estate) will move to the lower priced IP Stream Home service.
- 3.25 3-24- Data centre Business Continuity and DR testing will be performed during normal weekday, working hours, except full Data Centre fail-over test, and no testing environments will be available during such exercises.
- 3.26 3-25- Costs assume that any existing Optima LCD screens which are deemed by Fujitsu to be beyond economic repair after March 2008 will be replaced by an equivalent screen on failure.

// nik?

// why not?
// can't get
// shd half
// manage the
// MTBF risk,
// eg highway,
// partner
// require.



THE POSSIBILITIES ARE INFINITE

4. Training Capabilities

4.1 It is assumed that 100 business processes (product sales, back office functions) will be captured in the core training model available only at CTOs. Fujitsu has defined business processes as being business flows, and not individual business flow types. Examples would include:

*branch
subsite?*

- Sell a stamp and settle for cash
- Complete a banking withdrawal (including simulated Pin Pad interaction) and settle with cash
- Pay 3 bills (including bar code scan simulation) and pay with a cheque
- Remit in two cash pouches containing £10,000 each

4.2 No upgrades to this training module are included in the pricing. It has been assumed that such costs will be provided for in the charges associated with future developments that require training.

4.3 Implementing Software upgrades for the CTO hardware will be carried out under similar provision to that of current Horizon. *— what is meant here — do we use CD drives?*

4.4 It is not envisaged that the training capabilities will be deployable to the active branch counters but this could be considered at additional cost.

rollout training requirement?



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THE POSSIBILITIES ARE INFINITE

5. Technology Refresh

1.2 5.4-All existing counter hardware will be retained with the following exceptions:

1.2.1 5.4.1-Due to obsolescence issues, Fujitsu will begin to replace the existing Optima LCD screen on failure with an alternative monitor from 2008;

1.2.2 5.4.2-The number of luggables will be held at the current level. Any units that are beyond economic repair will be replaced by new technology. Any requirements for luggables above the current level will be subject to Change Control and will be implemented using new technology.

*implied
to be
in media
term.*

1.3 5.2-Fujitsu's charges ~~assumes~~assume that Microsoft XP will be supported to 2015. *does this mean the*

1.4 5.3-The cost model assumes no more than 13,821 network end-points for branches.

*act. of sys will
def be XP*

1.5 5.4-Costs for consumables are not included.

1.6 5.5-Horizon End of Day will be moved to a consistent 19:00 before migrations start.

not Linux

1.7 5.6-The migration tooling, costing and the migration timetable assume that no specific business accounting actions (e.g. stock unit rollover, branch liability process) are required as part of the migration of a branch to HNG ~~to~~to XP. The sub-Postmaster will be expected to confirm that the Horizon counter closing position and HNG ~~to~~to counter opening position are the same, through a process to be agreed with Post Office.

*or another
?*



THE POSSIBILITIES ARE INFINITE

6. Planned Outline Timetable

- 6.1 Fujitsu Data Centre migration occurring Q3 2006/07 from Alliance & Leicester Wigan and Bootle sites to Fujitsu's Southern Data Centres (SDC01 and SCD02). Over the migration weekend, which will be a Bank Holiday weekend, there will be reduced resilience to the online Horizon Services during this period. Over the migration period online services and DR capability will be affected. No new OBC operations will be scheduled around this time and, preceding the main migration period, the POLFS service will not be available while it is migrated over a weekend.
- 6.2 IP Stream implemented April 2007
- 6.3 3 month Application Pilot October 2007
- 6.4 3 month counter migration starting January 2008
- 6.5 NT to XP Operating System rollout, 6 months starting April 2008



7. Architectural Assumptions

General

- 7.1 It is assumed that the requirements statements will define to a sufficient level, the functionality that must be supported in the new application, and the new application will be developed and accepted against these requirements.
- 7.2 Limited ongoing change is expected after the implementation of HNG-X. Once the new application has been rolled out, there will be minimal new application change per year. It is assumed that the rate of change is low enough to handle on a single shared test rig.

Who is responsible for this? (Just team?)

What does this mean?

Architecture

- 7.3 HNG-X will be based on a centralised data model, whereby all transaction data is held centrally. This includes a dependency on an always available network, such that "no network = no branch trading". It is assumed that no facilities for offline trading will be provided.
- 7.4 It is assumed that the data centres with the new application will run in an Active/DR mode, with the DR data centre being used for testing. The active data centre in its own right is fully resilient. It is assumed that any business continuity testing is done during the week to reduce costs. This implies that there are one or two weeks per year where testing does not need to take place.
- 7.5 It is assumed that the services that must be available within two hours of a disaster are:
 - a. ability to settle transactions.
 - b. critical online services (namely banking and debit cards).

Data Centre Migration

- 7.6 Horizon data centres (Wigan, Bootle) will be moved to Fujitsu data centres. It is assumed that during the migration period, Post Office will accept, no DR capability for critical services and also no DR capability for non critical services for a longer period of time following the main migration. There will also be no online services to branches during non core hours over the weekend.
- 7.7 It is acceptable to have no new OBC operations scheduled in the main week of Data Centre migration.
- 7.8 Post Office are responsible for ensuring that Link and Card account agree to move connections/ configurations (including test connections for HNG-X testing) to the new data centres.

how long are these periods?

I thought it was over a bill week? other client?

Network

- 7.9 A new router will be rolled out to mobile and fixed sites on Horizon prior to the new HNG-X counter application, however, whilst in Horizon mode, the gateway PC still acts as a gateway for the slave counters.
- 7.10 Once the router is rolled out, existing backup technology (ISDN, HSCSD on demand) is no longer required.

does that mean we should roll the HSCSD on demand development?
why not - CRM subject to "BAS" problems.



THE POSSIBILITIES ARE INFINITE

Counter

7.11 Quantum as a service will be an online transaction. The Siemens security components will be centralised (similar to PAF). Quantum will make use of the existing (customer side) Hypercom counter PIN Pad as its' Smart Card Reader, and will not (as currently) use the Clerk side Smart Card reader. Post Office will need to obtain agreement from Siemens to the revised security model and obtain updated specifications of the interfaces as part of the requirements phase.

7.12 Any limitations on the applications capabilities supported that were already agreed for HNG will also be acceptable for HNG-X. This includes some aspects that were proposed but not documented in the HNG CD, and for completeness some items that have already been dropped or are proposed to be dropped on Horizon. Details listed below: ~ is this a complete list?

- * Session transfer will not be supported.
- * Session suspend will not be supported.
- * The Water Card product will be excluded before the start of migration to HNG-X.
- * The SPM Smart card product has already been dropped from Horizon and will not be supported by HNG-X.
- * The OBCS product has already been dropped from Horizon and will not be supported by HNG-X.
- * Training mode has already been dropped from Horizon and will not be supported by HNG-X.
- * LFS advice notes functionality shall be removed from Horizon and will not be supported by HNG-X.
- * The (currently unused) signature variants of Banking transactions will not be supported by HNG-X.
- * There shall be no Clerk copy of APS receipts
- * A number of other receipt and reporting simplifications will be made. [Details to be agreed with Post Office].
- * Any other enhancements over existing capability listed in the HNG CD will not be supported unless explicitly stated and agreed. (For example, remote access by auditors, enhancements to memo view message text attributes). || ?

7.13 Bubble help will not be supported. An alternative context sensitive help mechanism will be implemented provided a cost efficient alternative solution can be identified during the design phase.

7.14 The icon design service will not be continued for HNG-X. There will be a fixed, limited set of icons agreed during the UI design phase, which can be re-used as appropriate on desktop buttons in the HNG-X user interface. In particular, there will no longer be product specific bespoke icons. || Depends on the HCI? whether accept it.

7.15 It is assumed that there is no HNG-X equivalent to the Horizon Inbound Data File Delivery SLT due to the new application architecture, therefore the counter will not need to record reference data delivery metrics. ~> still need a service level for PAF to implement Kef beh

but this can be measured centrally.



THE POSSIBILITIES ARE INFINITE

Central Database

7.16 A single branch database will be provided to support both transaction capture and branch reporting. There are some performance constraints that need to be addressed by reducing the reporting load on this database:

- The rate of report requests must be reduced through the removal of unnecessary reports and the consolidation of Stock Unit and Branch Daily/Weekly cut-off reports. [Details to be agreed with Post Office].
- Confirmation messages for online transactions will only be harvested in batch mode at end of day. This means that the TES will not receive C2 messages in near real time, and Streamline payment file(s) will only be produced overnight.

|| May not be desirable for some banks that update a/c balances in real time?

Branch Migration

7.17 All counters within a branch will migrate from Horizon to HNG-X at the same time. It is assumed that the migration will not require any on site presence by Fujitsu staff.

7.18 It is assumed that the migration process can contain steps that are performed manually by the Post Office manager prior to and/or to cause the switch over from Horizon to HNG-X. [Needs further detailed design and discussion with Post Office.]

7.19 Reports are needed to show that the Branch accounting and stock position is maintained over the migration step. It is assumed that any exceptions highlighted will be corrected by manual adjustments on the HNG-X system later. (The assumption is that through both testing and pilot, such exceptions will be minimal).

7.20 There are certain categories of data that will not be migrated from Horizon to HNG-X. Examples are passwords, read / unread status of messages and planned orders. [Details to be agreed with Post Office]

~~~~~ Could be a problem.

7.21 It will not be possible to reverse the migration from Horizon to HNG-X once trading has begun at a migrated branch. (For the duration of the pilot only, reversion to Horizon will be by hardware swap out will and will require manual adjustment to the branch accounts for any transactions made on the HNG-X system. Any transactions performed on the HNG-X system will not be visible on the Horizon system).

7.22 The Horizon and HNG-X data will not be distinguished in the reconciliation and accounting positions.

|| Meaning? -> HNG at branch or national level?

7.23 During the migration period there will be additional parallel interfaces to some of the external Online Clients (i.e. E-Pay and Streamline).

~ which other?

**Security**

7.24 It is assumed that a full set of security requirements will be provided by Post Office at the business level that enables Fujitsu to build a system using technologies compatible with a retail environment using standard compliant capabilities.

7.25 Prior to the start of branch migration, digital signature checking of authorisation responses for Banking will be disabled in the Horizon counters. Post migration, all digital signatures checking

|| ?



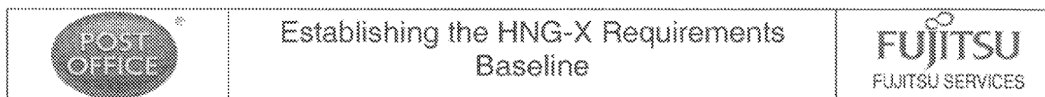
THE POSSIBILITIES ARE INFINITE

will be removed from the Banking Authorisation agents (already disabled for PIN based transaction requests). As a result, the PIN pad may be necessary for deposit transactions.

**External Interfaces**

7.26 It is assumed that there will be no changes to any of the application interfaces to external Clients, including POL RDS, however, see also assumption above on connectivity during the branch migration period.

*Portal Services ref data?*



## 1. Introduction

Fujitsu Services and Post Office are currently engaged in discussions aimed at establishing the basis for a revised HNG-X programme. The prime and overriding focus of this programme from a Post Office perspective is to achieve a cost reduced but equivalent solution that enables Post Office to continue to deliver all of its business capabilities, to trade its entire product portfolio and to meet all of its stakeholder service commitments. In addition the HNG-X programme must ensure that the manner by which this is achieved does not restrict Fujitsu Services in using the most cost effective development approach or solution architecture, and also adopts an engagement process with Post Office that minimises the risk of downstream solution changes due to functional omissions or misinterpretations.

One of the critical success factors in achieving these goals is the establishment of a formal HNG-X Requirements Baseline in a time / cost controlled manner that will act as the basis for the subsequent HNG-X programme.

This paper provides an outline description of the process that it is anticipated Post Office and Fujitsu Services will follow to produce and approve this baseline. It is provided to Post Office for joint discussion in order that the respective roles, responsibilities and resource commitments can be assessed as well as the implications for assurance and approval.

This paper summarises: -

- The scope of the HNG-X Requirements Baseline
- The process for Use Case development
- The implications for Acceptance and Testing
- Outline Business Equivalence guidelines



## 2. HNG-X Requirements Baseline

It is proposed that the HNG-X Requirements Baseline will comprise a representation of all of the business processes and interfaces supported by Horizon at an agreed baseline (expected to be at Release S90) together with a definition of the revised User Interface and statement of all non-functional requirements. Acceptance Criteria must be specified as part the development of this baseline and traced / aligned to specific requirement models or statements within the baseline.

### 2.1 *Functional baseline*

The functional baseline will be expressed in the form of UML models comprising: -

- Use Case descriptions including Main and Alternate flows describing the Post Office elementary business processes that are to be supported on the HNG-X System (e.g. Remit Stock In, Perform On-line Banking Withdrawal, Add Financial in-pay to basket etc.). These descriptions will describe the required interactions between the 'Actors' (e.g. Clerk, Client System, Post Office System) and the 'System' in a solution neutral fashion.

|                                                                                   |                                                 |                                                                                     |
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|  | Establishing the HNG-X Requirements<br>Baseline |  |
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- A Class or Domain model describing the business objects that are associated with the Use Cases (e.g. Customer Session, Bank Card, Settlement Item etc.).
- A set of Activity or Interaction diagrams to describe the logical workflow for any complex or prescribed User / System behaviours.
- Various supporting artifacts may also be produced where these are necessary to provide a full definition of the Use Cases including any associated Business Rules and a Glossary for all commonly used terms.

Wherever possible this functional definition should seek to use references to existing Horizon documentation rather than restating already agreed specifications. This will be particularly true of interfaces that describe external client boundaries (e.g. Application Interfaces Specifications) and other Client or Post Office specified business rules, data or specifications (e.g. Banking mapping rules, Report layouts, Transaction and error response codes etc.).

This will also apply but to a lesser extent to user / system dialogues providing that the documentation reference can be supported with an accepted interpretation of the material that isolates the logical workflow from the current implementation and screen representation.

## 2.2 *User Interface*

The process for defining and agreeing the HNG-X User Interface is expected to re-use much of the HNG material and method. A focused definition stage is required that will result in the completion of these activities and the production of an agreed HNG-X User Interface Style Guide. The timing of this stage must be such that the review and design activities can be time & cost constrained and with an approval process and milestone that does not delay the dependant application design activities.



The HNG-X User Interface definition stage will: -

- Be based on the HNG Design Brief
- Continue the 'clean room' design methodology
- Complete the remaining User Interface constructs
- Complete the identification and specification all major User Interaction types and sequences in static form. This will include any new UI constructs needed to support Postal Services.
- Produce and gain agreement to the HNG-X Style Guide

## 2.3 *Non-Functional requirements*

All non-functional requirements will be newly stated and either: -

- Predominantly aligned to the relevant Use Case where they relate to specific process or functional constraints / qualities – (e.g. security constraints for Banking, reliability of Branch Administration process).
- Described as a set of overarching POL requirements which will be used to scope and constrain the HNG-X solution and service design.

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- It should be noted that Fujitsu Services have made a number of simplifying assumptions that will affect the nature of the POL non-functional requirements. These will be fully described but in summary cover: -
  - All previous HNG functional exclusions are carried forward (e.g. Removal of Watercard, no support for Session Transfer or Session Suspend, removal of signature variants of banking transactions etc.
  - All previous HNG technical assumptions are carried forward (e.g. reduced security and cryptographic model).
  - A centralised data model will be employed.
  - Branch trading will be reliant on network availability
  - Network characteristics will not support any future thin client architecture
  - Future rate of change of POL Business applications / services will be low.
  - A single Branch Database will be used to support transaction capture and reporting
  - ADSL IP Stream Home will be used for a proportion of the estate (1,2 & 3 counter branches).
  - The application migration will continue to use the existing Branch infrastructure running NT4. Following completion a separate programme will address the migration to XP.
  - The migrated data centre architecture will operate in an Active / DR mode, using the DR capability for testing as required.

It is expected that the starting point for the HNG-X non functional requirements will be the equivalent statements in the HNG Conceptual Design, recognising the extent of joint discussion and agreement that had previously been reached. Further dialogue will be welcomed to agree any necessary revisions to these statements in light of the revised HNG-X service and solution architecture.

## 2.4 *Retained Capabilities*

The HNG-X Solution Architecture will retain some of the current Horizon components (e.g. various back end data-stores / process and Client interfaces). The Requirements model will recognise these retained 'Actors' early in the analysis process and identify the boundary conditions between the new and retained components.

It is expected that the business processes / requirement for these retained components will only require minimal new definition / documentation in the HNG-X Requirements Model.

In addition Fujitsu Services believe there would be time and resource savings by excluding any such retained functionality from the scope of the HNG-X Acceptance Strategy, with the emphasis on Fujitsu Services managed and defined 'boundary' condition testing comparable to the existing Horizon style of regression testing for the unchanged functionality.

## 2.5 *Equivalence Guidelines*

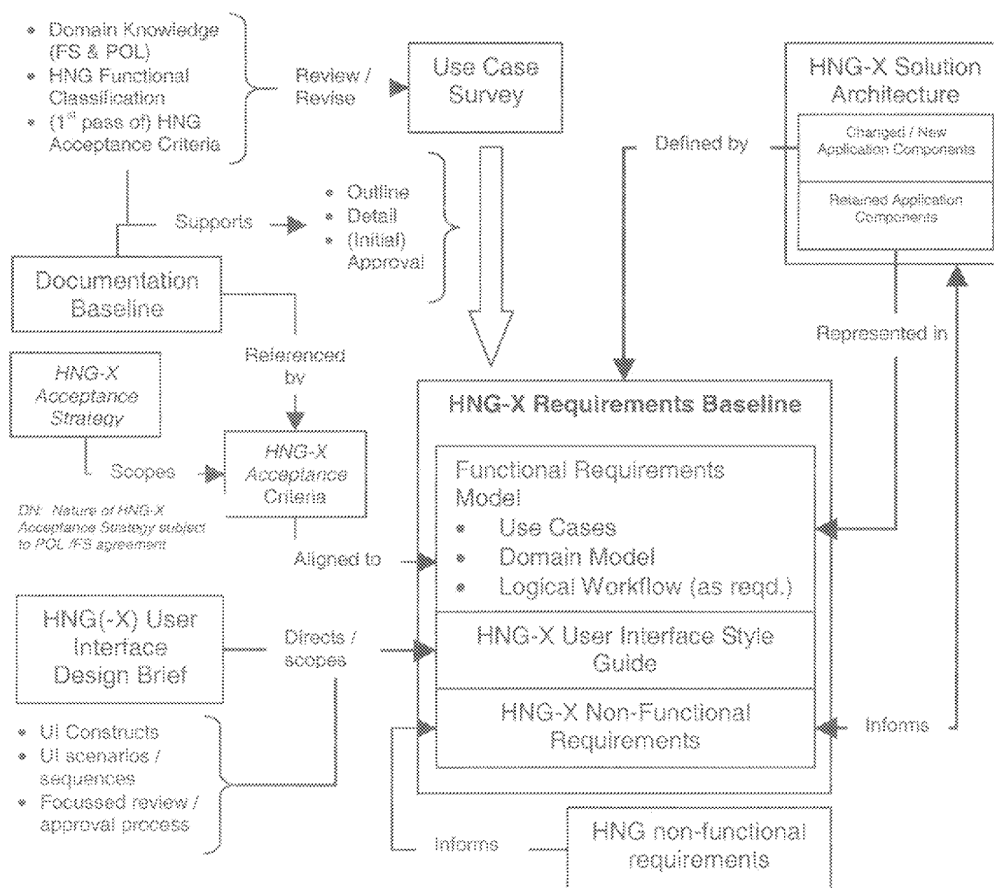
In order to maintain the principle of equivalence during the Requirements Specification stage, the development of the HNG-X Requirements Model will be governed by a set of 'Business Equivalent Guidelines' which will provide an overall framework for the scope and capabilities that are required to be specified. These guidelines are only intended to provide part of the scope definition of this stage of the programme and would cease to have significance once the HNG-X Requirements



Model has been approved. A draft of these guidelines is provided at the end of this paper.

## 2.6 HNG-X Requirements Baseline – overall context

The following diagram illustrates the HNG-X baseline components and the primary source material that will be used in their production.

- The functional baseline will be driven from the Use Case Survey, which will be assured using POL / FS domain knowledge and other supporting material including the HNG Functional Classification and a summarised assessment of the draft HNG Acceptance Criteria.
- The HNG-X Style Guide will be developed from existing HNG collateral
- The HNG Non functional requirements are derived from an agreed set of revisions to the existing HNG material.
- Acceptance Criteria for all of the above are required, derived where possible fro existing HNG analysis but recognising the different form of the Requirements baseline components.



|                                                                                   |                                                 |                                                                                     |
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|  | Establishing the HNG-X Requirements<br>Baseline |  |
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### 3. Engagement and Assurance

Fujitsu Services believe that the development of the HNG-X Requirements Model can be best achieved by leveraging the knowledge and capabilities of both organisations – with the analytical and Horizon application knowledge of Fujitsu Services able to complement the Post Office business and operational knowledge.

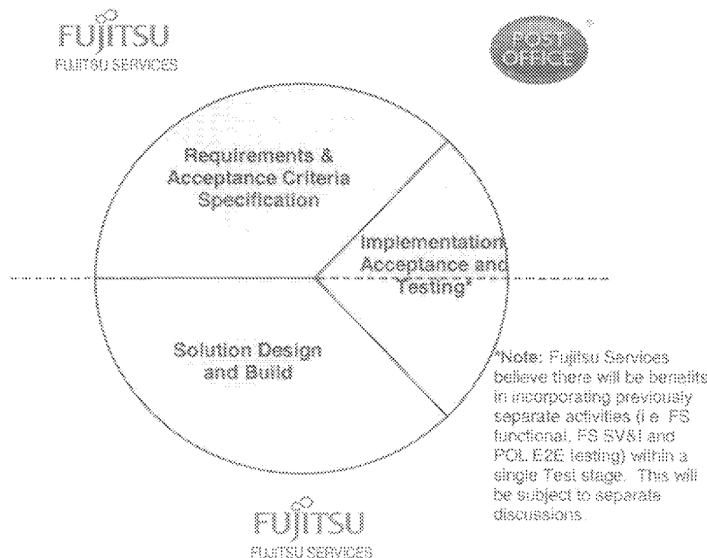
It is proposed that a joint team is established with the common incentive and goal of delivering the HNG-X Requirements Model within an agreed time / cost budget.



An agreed method of working will be necessary to ensure that this activity does not escalate beyond its allocated time / cost budget and to ensure that the scope and level of detail is constrained to that sufficient to express the business requirement and not any detail of solution realisation.

In particular it will important to recognise that the packaging of the deliverables from this stage should ideally be a complete representation of the functional / UI and non functional requirements for each 'group' or 'classification' of business function, together with the associated Acceptance Criteria. The emphasis of the assurance activities should predominately be focussed on ensuring the full, complete and acceptable coverage and definition of the business and procedural capabilities / requirements rather than on the manner by which the HNG-X solution design and build is to be realised.

Fujitsu Services will work jointly with Post Office during this stage after which Fujitsu Services will have the responsibility to enhance the business requirements baseline with the system and technology specific specifications and the management of the solution design and build stage.

The nature of offshore development requires that there is a more formal and stricter degree of separation between the 'Requirements' and 'Solution' stages. Of course this does not mean that an isolationist approach will be adopted – When it becomes necessary for Fujitsu Services to seek clarifications, discuss design neutral choices or discuss optimisation opportunities then the ability to engage with Post Office's business and operational expertise will be welcomed.



|                                                                                   |                                                 |                                                                                                         |
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## 4. Use Case development

The functional element of the HNG-X Requirements Baseline will be developed using UML to support the intended OOB development method and JAVA based counter application environment.

Starting with the baselined Use case Survey, each class of Use cases will be progressed through the following stages: -

- Identify and describe
  - (An initial Use Case Survey has already been prepared by Fujitsu Services comprising approx 180 UCs. )
- Outlined
  - Such that the main business process / transaction flow is described and the other expected (or Alternate) flows are identified
- Detailed
  - Such that all aspects of the main and alternate flows are described together with the associated business rules. Any non-functional requirements that can be related to the use case will be identified and 'traced' to facilitate later overall design assurance. Domain Model development will also commence at this stage.

The progression of a use case through these stages must operate to a fixed review / revision timetable which will require direct or planned access to suitably empowered and knowledgeable personnel who can verify the individual Use Cases. It is expected that progressive draft approval for each Use Case (and its associated material) will be provided by Post Office concluding with an overall approval process once the Requirements Model is complete.

It is expected that some new Use Cases will be identified during this stage, and that some revisions may be required as the overall Use Case set is structured to ensure the correct relationship between primary and sub-ordinate UCs. This may require a degree of 'business' level approval (for completely new UCs) but it is hoped that the majority of this work can be managed within the local governance processes of this stage.

Any revisions to a Use Case that are required following its initial approval should be locally managed within the joint team (albeit under an agreed HNG-X programme governance structure) with further revisions being managed on a formal exceptions basis, and potentially under Change Control if approval deadlines have been achieved.

An important part of this phase is the process by which Post Office and Fujitsu Services can be assured of the accuracy and completeness of the Use Cases. Fujitsu Services have identified an initial documentation set and will work with Post Office to identify a core documentation set for each Business Capability / Support Facility that will act as one of the key sources of information from which the analysis and development of the Use Cases will be based. This information will be supported by knowledge of existing Horizon capabilities and access to various domain experts in either organisation as required.

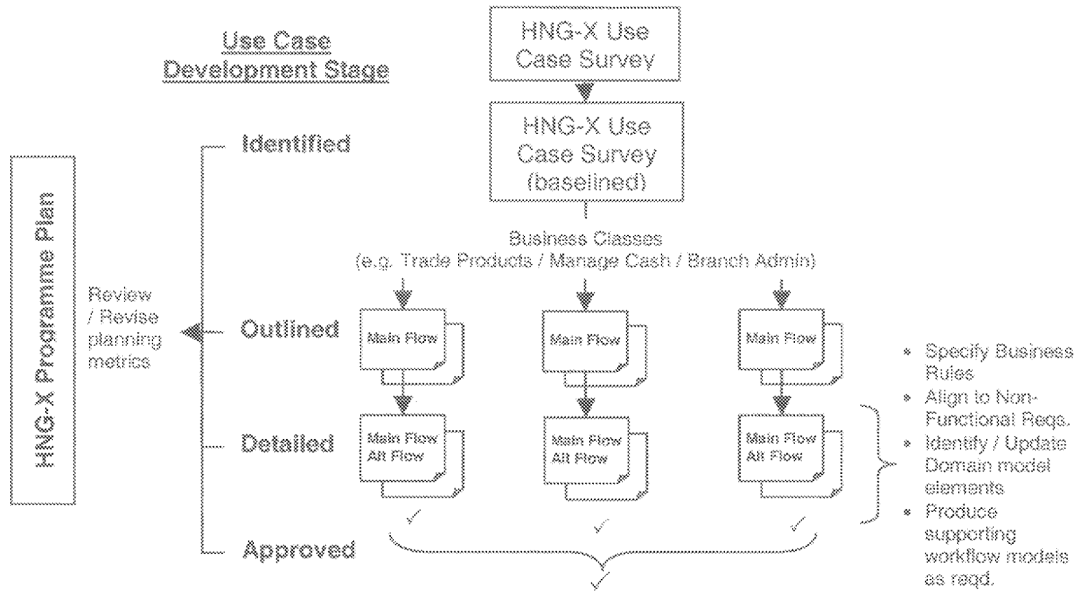
In addition it may be also beneficial to utilise the draft Post Office HNG Acceptance Criteria as a valuable source of information that can be used to guide and assure the

|| cont?

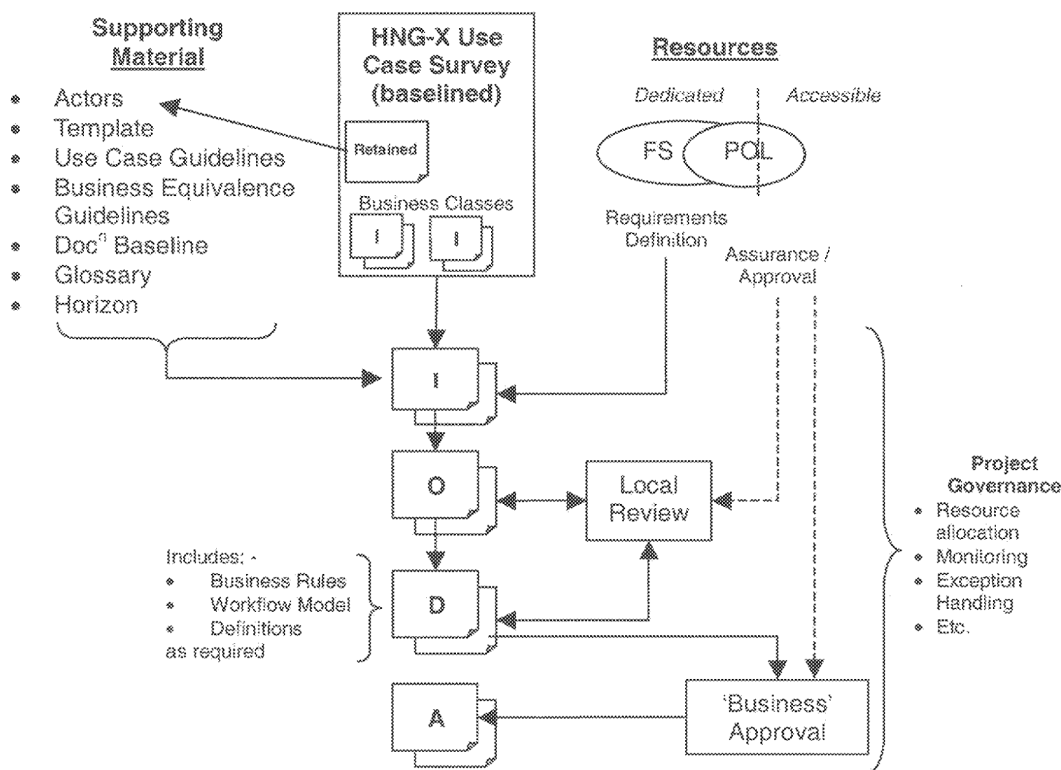
|| What risk?

content of individual Use Cases. This would enable Post Office to be confident that relevant functional capabilities contained in these criteria statements are represented within the HNG-L requirements baseline.

The following diagram illustrates the progression and deliverables for Use Case development. An example set of detailed Use Cases have been provided to illustrate the style and level detail that will be required.



The following diagram illustrates the staged development and review / approval process that this stage will require to be established. Post Office will need to consider the nature and formality of these processes particularly the nature, extent and purpose of engagement with POL business representatives. Within a challenging and cost/resource constrained stage it will be important to employ an appropriate form of review and assurance process.



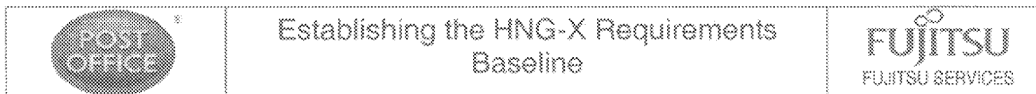
## 5. HNG-X Acceptance and Testing

On the basis that there will now be a formal HNG-X Requirements baseline, Fujitsu Services would like to agree with Post Office the most cost effective Acceptance Strategy that recognises the change of emphasis from textual statement based representation of Post Office requirements to one that for the most part comprises a set of UML models.

This approach must clearly protect Post Office's commercial and operational obligations but must be such that it does not adversely affect the cost reduced focus of the HNG-X programme.

It is assumed that Post Office will wish to conduct a series of Acceptance Stages throughout the HNG-X programme and that explicit Acceptance Criteria will therefore be required against which to verify the HNG-X Solution.

An alternative approach for the functional aspects of HNG-X could be based on an agreed set of outcome based tests that are run through both Horizon and HNG-X as the basis of verifying business equivalence.



On the basis that criteria are required, Post Office may wish therefore to continue the HNG process of developing Acceptance Criteria from the various Horizon information sources and to initially use this material to support the development of the HNG-X Use Cases. It should then be feasible for the majority of these Acceptance Criteria to be formally associated with the requirements model (e.g. Use Cases for functional criteria, Workflow models for Branch process / constraints criteria, the Style Guide & scenarios for UI qualities). It is assumed that any existing non-functional criteria will be used to support the definition of the HNG-X non functional requirements and associated criteria.

The overall aim of this process is develop an HNG-X Acceptance Criteria baseline that is wholly aligned with the HNG-X Requirements Model.

It may be necessary for some of these Acceptance Criteria to be 'levelled' to the same extent as the scope and detail within the Use Case – i.e. they should be aggregated and revised to reflect the business process / solution neutral level of specification rather than (in some cases) the more detailed solution based view contained in the original Horizon material. It should be an overall objective to ensure that the text of the Acceptance Criteria relates as closely as possible to the processes, objects and rules that will form the Requirements Model to minimise the need for later interpretation and to allow the HNG-X Test Strategy (for functional testing) to be focused on verifying the Use Cases, rather than having to take special consideration of HNG-X Acceptance Criteria.

This process of rationalisation and alignment would be part of the responsibility of the joint Requirements team, but with final approval on the nature and scope of the acceptance criteria being with Post Office.

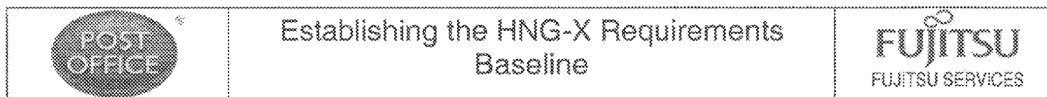
## 5.1 *Acceptance testing of retained components*

It is intended that the HNG-X Solution Architecture will re-use certain established and stable solution components of the current Horizon architecture. In particular it is proposed that the majority of the Horizon Host capabilities and associated external interfaces will remain unchanged with limited rationalisation of certain data-stores to reduce operating costs.

This re-use approach should be capable of being reflected in the degree of analysis and definition required in the HNG-X Requirements baseline and in the associated acceptance criteria and testing approach. The scope of the current Use Case survey includes all POL business capabilities irrespective of any component re-use in the emerging HNG-X solution. Once this overall solution architecture has been approved it is proposed that the retained Horizon capabilities should be included in the HNG-X Requirements Model as 'internal System Actors' rather than as Use Cases where the emphasis will be on defining their boundary characteristics rather than formally specifying the business requirements and processes that they support.

References to the relevant documentation (initially to the current material plus any planned changes to support HNG-X) should be sufficient to support the HNG-X baseline definition.

Excluding these retained capabilities from the more detailed stages of the HNG-X Baseline definition should also reduce or remove the need for the specification of



corresponding Acceptance Criteria – at least for any functional capabilities. Fujitsu Services expect that agreement can be reached with Post Office on a testing approach for these retained components comparable to the suite of regression tests used to verify unchanged capabilities on current Horizon.

## 5.2 Converged Testing Stage

As noted earlier and subject to separate discussions, Fujitsu Services believe there are cost reduction opportunities to be gained through converging the FS functional and SV&I test stages with the POL E2E test stages. This approach is expected to yield a reduced requirement for rig infrastructure, rig rebuilds and testing scenarios and associated resources.

## 6. Guidelines for Business Equivalence

These guidelines have been adapted from the draft HNG Functional Equivalence rules and are intended to provide a framework that will support the development of the HNG-X Requirements model. They provide a set of principles that will direct the definition of the underlying Use Cases and other elements of the requirements model and seek to reinforce the position that the HNG-X solution will support all of the Post Office business processes in an equivalent but not necessarily identical fashion to the current Horizon solution.

These guidelines will only operate during the Requirements Definition stage and will be superseded by the HNG-X Requirements Model once this has been approved and baselined.

### HNG-X Requirements Baseline - Scope

- The scope of the HNG-X Requirements Baseline will be limited to the specification of the business processes, associated data, User interface and non functional features that are required to support the Business Capabilities and Support Facilities summarised in the current draft HNG Schedule 18. These are identified below together with their nearest equivalent Horizon Service.
- (At this stage) no additional or changed business processes (or their associated functional or operational characteristics) will be included in the HNG-X Requirements Model unless: -
  - Any of the simplifications proposed by Fujitsu Services are accepted by Post Office
  - Explicit requirement statements or exclusion statements are provided in by Post Office (in the HNG-X Conceptual Design or other equivalent formal documentation).
  - Changes are introduced and agreed via Change Control Procedures

*What  
version  
do Fujitsu  
think  
is at?  
S90?*

### HNG-L Requirements Model – definition guidelines

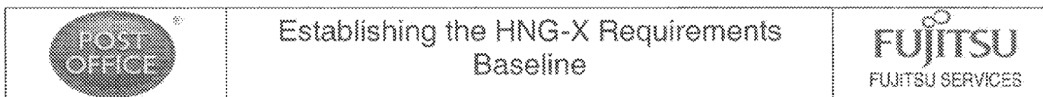
- The broad intention is that the HNG-X Requirements Model will define the Post Office business processes in a manner that achieves the same business outcomes to Post Office and their Clients and achieves the same operational effect within a Branch. The level of definition will be guided by the need to ensure that: -

- The financial outcome resulting from the operation of a specific Transaction for the Customer, Post Office, any affected Client(s), and any other Post Office Supplier(s) is identical to the equivalent transaction carried out on Horizon.
- The Products that can be traded within a Branch are the same as those defined in Post Office Reference Data as at the agreed Horizon Baseline
- The Business Rules associated with any Product transacted as part of a Business Capability are applied in the same manner as those used with the equivalent Horizon transaction. Business Rules that are currently defined within Post Office Reference Data, Fujitsu Services code, other forms of Reference Data, Client supplied data / information exchanges and other sources defined within the Baseline Horizon Application Definitions will be specified as part of the HNG-X Requirements Model.
- The Customer / Clerk interactions that relate to the workflow associated with a particular Use Case and delivered via the HNG-X User Interface enable:
  - \* the same data to be captured using the same format and validation criteria;
  - \* the same initiating Tokens or events to be used;
  - \* comparable information displays and capture methods via the counter terminal;
  - \* an equivalent set of tasks to be performed following the same logical workflow.
- The Outputs resulting from the completion of a Transaction are equivalent and have the same operational effect (in terms of form and occurrence) as those resulting from the associated Horizon transaction. However it should be noted that some optimisation of Branch processes (including Branch Reporting) may be introduced subject to Post Office agreement.
- Where relevant the HNG-X Requirements Model will make reference to the relevant sections of the appropriate Contract Controlled Document to

*This should be that we set in help but at the time if it means at branch level.*



*Core/non-core model?*

*+ except conditions?*



specify the form of the Outputs and any necessary interpretations. These are expected to comprise:

- Any information exchange or generated data file which includes interactions with hosted systems (e.g. PAF, SAP-FS) and external systems (e.g. LINK, DVLA). These must be specified to conform to the appropriate Application Information Specification. Note: Such specifications will only apply to externally measurable / contractually recognised interfaces.
  - Any printed item (e.g. Report, Branch Receipt, other forms of Branch produced collateral). This will be specified to conform to the relevant layout specification as defined in the relevant Contract Controlled Document., subject to any agreed modifications introduced as a result of HNG-L.
  - Any data produced or captured by HNG-X that can be accessed or retrieved by / provided to Post Office. This will be limited to those formally agreed services and retrieval mechanisms, provided that the meaning of the data and / or the associated Post Office processes has not changed as a result of the introduction of HNG-X. At this stage any informal or occasional requests for information by Post Office are expected to be excluded from the scope of the HNG-X Requirements Model subject to discussion to determine the nature and formality of such requests and the underlying data sources that would be required.
- The outcome of any aspect of Branch trading or operation results in the same state of financial integrity and ability to audit as exists on Horizon. The HNG-X Requirements model will recognise any agreed simplifications to the reconciliation process and/or the associated reports.
  - The use and interpretation of Post Office Reference Data (in terms of its data definitions and its use to invoke functionality) will remain the same. Any data items or Reference Data capabilities currently unused on Horizon will remain unused or suppressed as part of HNG-X.
- Users must be able to perceive and perform the functions provided via the changed User Interface such that they can perform the same user tasks in the same or in a comparable manner. Therefore the agreed process descriptions for the HNG-X Business Capabilities may not wholly reproduce all aspects of the current Horizon Counter Dialogue definitions or other Horizon screen content specifications where agreed to be different.

|                                                                                   |                                                                        |                                                                                     |
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|  | <p align="center">Establishing the HNG-X Requirements<br/>Baseline</p> |  |
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- The following table identifies the equivalent Horizon Service for each HNG-X Business Capability / Support Facility: The scope of each item remains as described in the draft HNG Schedule 18.

| HNG-X Business Capability | Horizon Service / Application                 |
|---------------------------|-----------------------------------------------|
| Point of Sale             | EPOSS                                         |
| In-Payment                | APS and AP-ADC facilities as required         |
| Banking                   | NBS / NBX                                     |
| DVLA                      | APS using AP-ADC facilities                   |
| Electronic Top Up         | ETU                                           |
| Bureau de Change          | Bureau                                        |
| Postal Services           | SmartPost                                     |
| Payment Management        | EPOSS using Debit Card facilities as required |
| Cash and Stock Management | LFS                                           |
| Branch Administration     | EPOSS                                         |
| HNG-X Support Facility    | Horizon Service / Application                 |
| Branch Administration     | EPOSS (part)                                  |
| Branch Support            | EPOSS (part), OPS (part), Sales Prompts       |
| Transaction Management    | TMS (part), TES                               |
| File Management           | APS, TMS (part)                               |
| Reference Data            | Reference Data Management Application         |
| PAF                       | PAF Facility                                  |
| Message Handling          | Message Broadcast                             |
| Audit                     | Audit                                         |
| Reconciliation            | Reconciliation                                |

September 2005  
Horizon Services Partnership

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# Horizon Services Partnership

Post Office Presentation  
14<sup>th</sup> September 2005

"Doing Our Bit to Help Make the Big Things  
Happen"




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## Purpose of today's presentation

- Confirm scope and approach to Services Partnership (based on HNG-X architecture)
  - No surprises
- Confirm commercial proposition
  - Aligns with projection provided in July
  - Achieves what we set out to achieve
- Clarify any outstanding key points
- Agree next steps



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## Services Partnership objectives

- Dramatically reduce IT operational costs
- Enhanced ways of joint working
  - Commitment to the "Strive"
  - Alternative commercial models
- Maintain current service levels
  - Understand impact of proposed changes
- Greater operational and commercial variability/flexibility
  - Service delivery (customisation)
  - Charges



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# Commercial Proposal

**Dramatically Reducing  
Operational Costs**



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## Reducing Operational Costs

- HNG answered the right question (at the time)
  - Post Office requirements have changed
  - Unaffordable (especially level of up-front investment)
  - Too many "nice to haves"
- HNG-X (back to basics)
  - New design focus on only changes which remove costs
  - Delivering "Business Equivalence"
  - Adopt a more retail centric approach – "sweat the asset"

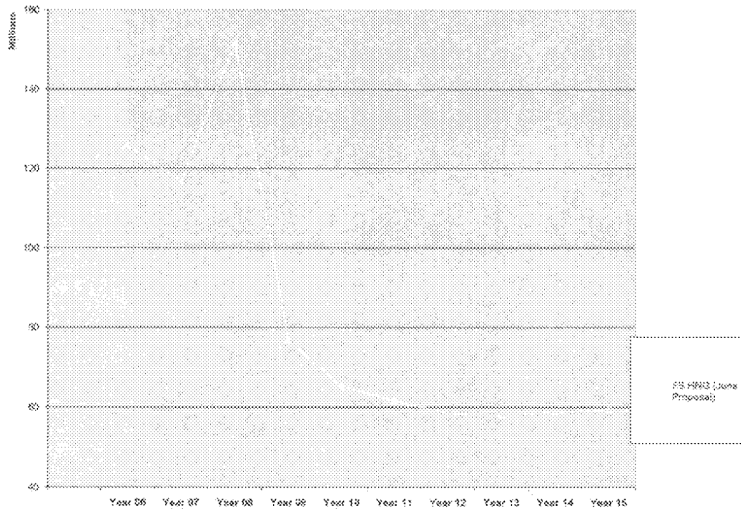


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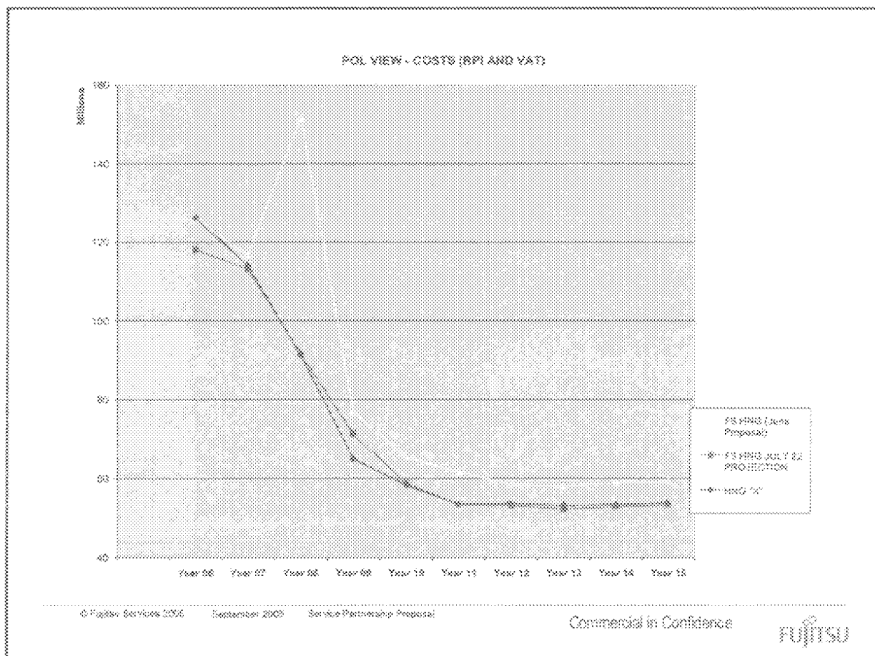
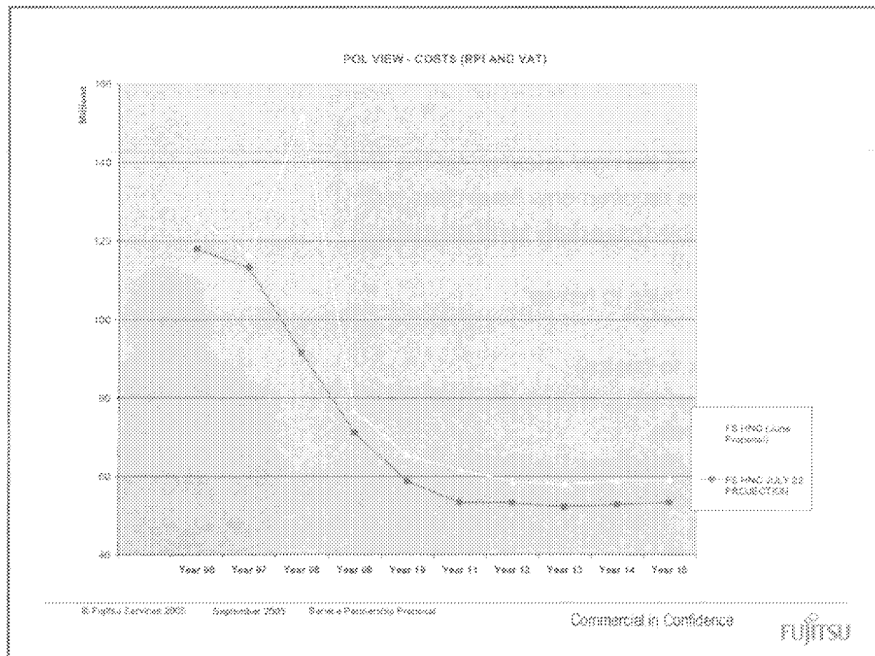
PCL VIEW - COSTS (RPI AND VAT)

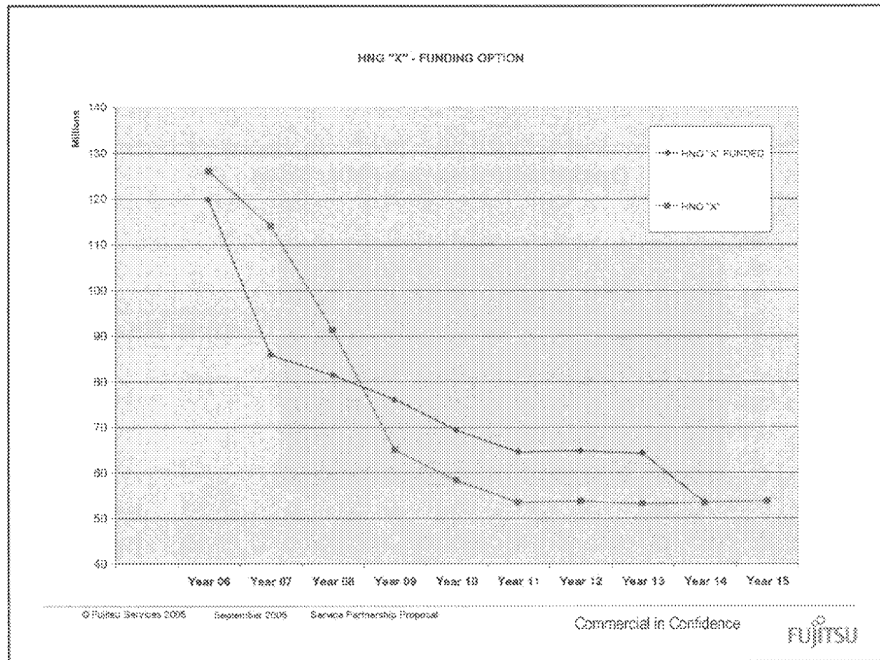


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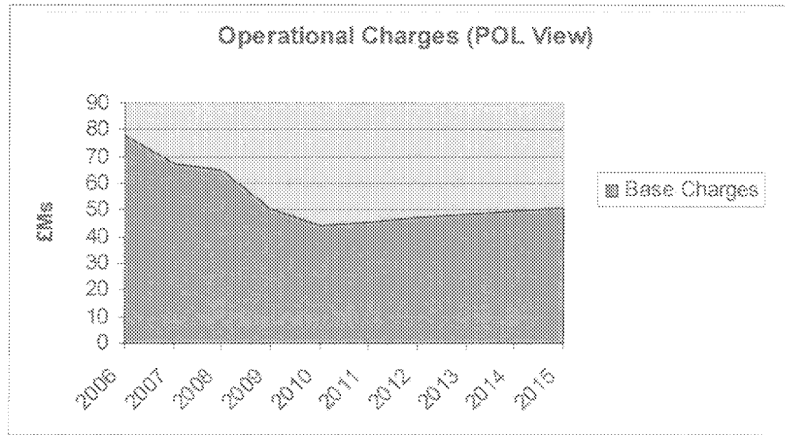


### What's behind the numbers

- Plus:
  - Reduced SI rates (lower cost of pre-paid)
  - Use of pre-paid to deliver HNG-X development in 2005/6 to 2007/8
  - Off-shore development
  - Pre-paid removed from April 2010
  - Year on year productivity improvements (Strive)

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### Strive & Service Partnership

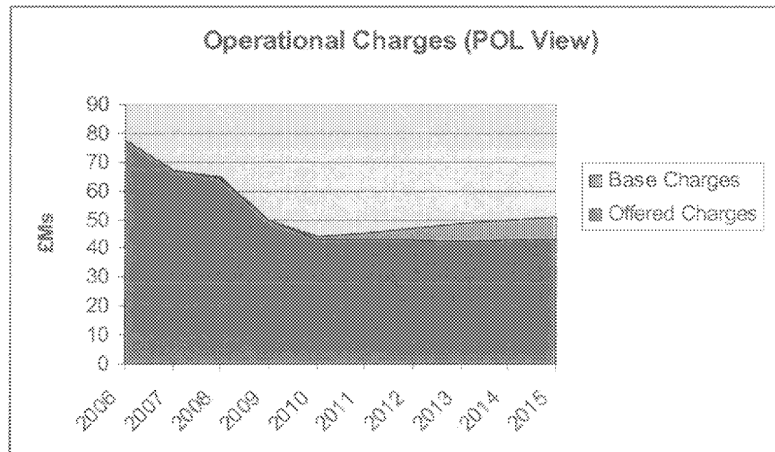


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### Strive & Service Partnership

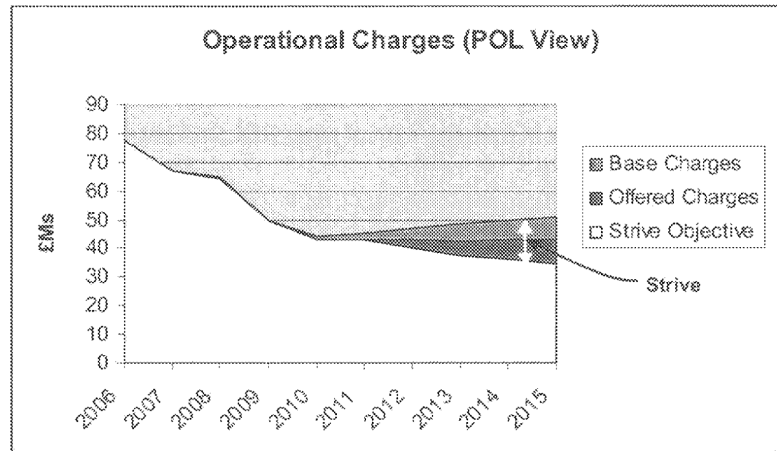


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## Strive & Service Partnership



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## Delivering the Strive

- **Benchmarking**
  - Ensures that Post Office costs are at least market competitive.
- **Gain Share**
  - Incentives to encourage innovation through shared rewards.
  - Will deliver competitive advantage.
- **Commercial flexibility**
  - Contract designed to accommodate change
  - Reduce need for contract re-negotiation mid term
- **Joint working with Post Office**
  - Optimising the way we work together to achieve the most productive outcomes
    - Cost reductions
    - Management of risk
    - Problem solving/innovation
    - Time to market (implementing change)
- **Focused on:**
  - Business value creation
  - Business operational costs & risks
  - IT costs & risks

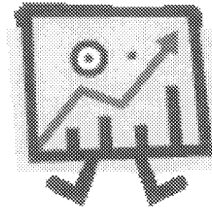
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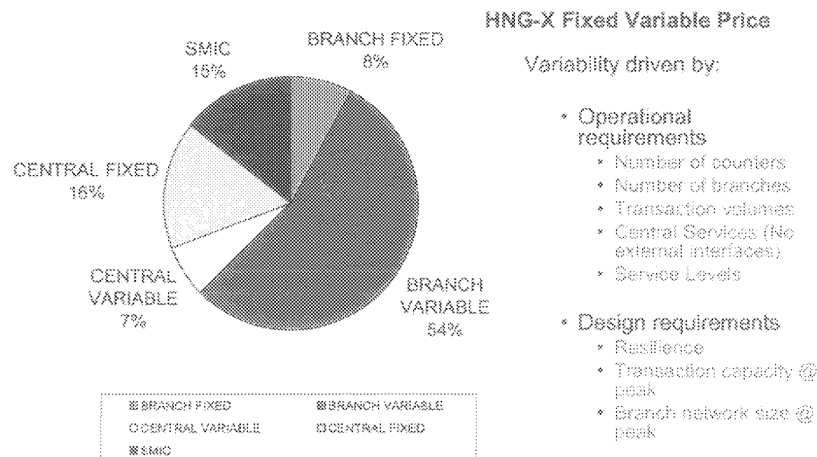


## Strive Opportunities

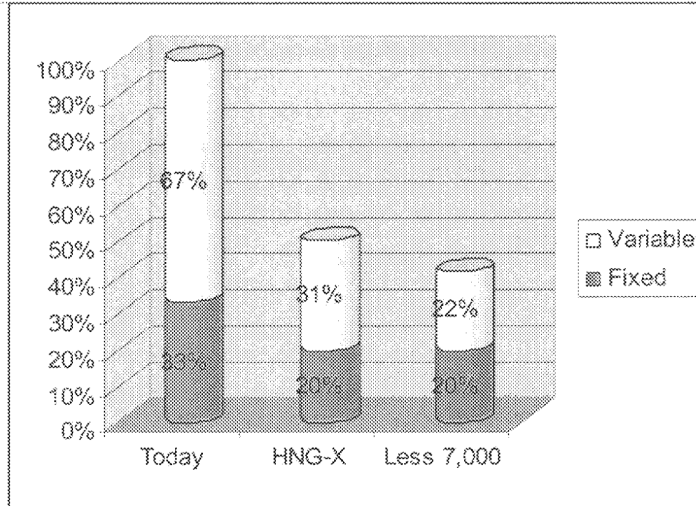
- Design for simplified engagement between Post Office and Fujitsu
- Minimising end-user training cost for HNG-X
  - Wrap as part of Fujitsu's managed service
- Extended Fujitsu's role in management of other POL 3<sup>rd</sup> Parties
  - Live service delivery
  - Projects
- Counter printer replacement
- Tech-refresh of other counter equipment
- Further service optimisation
  - Earlier migration to new ADSL services
  - Off-shore delivery
  - Reduced SLTs



## HNG-X Flexibility & Variability



### HNG-X - Impact on fixed costs over time



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### Service Options

- Proposal assumes a standard service for all Post Office branches and central services
- Proposal offers potential to tailor the services and associated SLTs to specific needs of individual branch segments
- Facility to model the commercial impact of different service combinations will be provided under the contract

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## Working Together

- **Governance structure**
  - Ensure Fujitsu's services are aligned with the right focus/business priorities of Post Office
- **New ways of working**
  - Robustly defined contractual boundaries, roles, accountabilities and rationalised end to end processes (across whole solution lifecycle)
    - Slimmer engagement (plan for success/greater mutual trust)
    - Opportunity to release fixed cost from within Post Office
  - **HNG Programme delivery**
    - "Business requirements" level engagement
    - Co-located teams
  - **Service Delivery**
    - Continuation of Service Transformation activities to embrace Post Office
    - Cross fertilisation of skills/experience from Fujitsu in to POL (strengthen POL's own Service Management skill base)
    - Extended role of Fujitsu in Service Management (manage other POL 3<sup>rd</sup> parties)
- **Commercial**
  - Flexibility in service options (to tailor service to individual POL branch segment needs)
  - Variability under the contract to wind-out cost if business contracts
  - Transparency over subcontract buy-in costs (agreed "up-lift charges")

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## HNG-X Architecture



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## HNG-X Architecture

- Current Horizon architecture drives considerable levels of fixed cost/overhead

### Service Costs for the Current Applications

- **Uplift of the Current Application**
  - Look & feel familiar to users
  - Reflects current business processes and procedures
- **Downsides of the Current Application**
  - Yearly software maintenance fees
  - Data distribution causes high engineering costs
    - 50% longer time on site for data migration
    - 50% longer engineering time for customer query
  - Data distribution increases complexity in Data Centres
    - Data centre space rental
    - Data centre utilities
  - Communication model induces high costs for Network and Network management
  - Software instability and crashes up to 24000 calls per year
  - Complex software upgrades in branches
    - Full range of software distribution
  - Complex / expensive testing facilities
    - Payphone data centres
    - Lack of the ability to create a test environment

- HNG-X architecture will address these cost drivers whilst maintaining "Business Equivalence" and service levels

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## HNG-X Components

### Pivotal role of New Applications

- A set of New Applications is required that preserve the business capabilities defined by the current applications, but at the same time increase the ability to manage and service the overall Business Solution
- The Application Architecture is based on:
  - Centralised Data
  - Geographical Security
  - Service oriented integration of software processes
  - High performance multi-media and database technology (terabyte storage)
  - Enterprise standard Java and web services
- Ability to cope with business change (e.g. APACDC)
- The New Applications will be reusable across platforms and can provide the foundation for a future divided architecture

### Overall Solution Architecture

- The overall Solution Architecture includes:
  - A shared Network for all branches (200 - 2000)
  - Greater Resilience and Time availability
  - Data Security - modified back-ups for Live
  - One copy of the live data centre to provide DR and Test capabilities
  - Greater Help Desk focus, with electronic self-helping

### Leverage of Current HNG/200

- The New Applications leverage the current **Capacity** hardware
- The ability to refresh current hardware can be made dependent upon:
  - RTO/R
  - Availability of spare parts (e.g. 7x24x365)
  - Future business requirements
- The New Applications can leverage the current **Operating System**
- The New Applications can be servers in a range of operating systems (e.g. Windows XP/ Linux)
- Must not compromise the current **training** for users
- The New Applications can retain **new hardware** via:
  - 10 year
  - Guaranteed benefit pricing
  - Secured mixed assets

**NB HNG-X still preserves many of the attributes associated with HNG**

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## HNG-X Investment Considerations (1)

- **Technology Curve – is there something better around the corner?**

- Almost certainly, but what and when?
- HNG-X will make it easier to intercept and integrate with new technologies and methods than is possible with current Horizon
  - Standardised environment (Java/Oracle/Web Services/etc.) – any innovations will build on contemporary methods
  - Use of standard Fujitsu tool sets – puts Post Office on Fujitsu's services road map
- HNG-X will ensure there are no "missed opportunities"
  - Underpinned by focus on Strive initiatives

## HNG-X Investment Considerations (2)

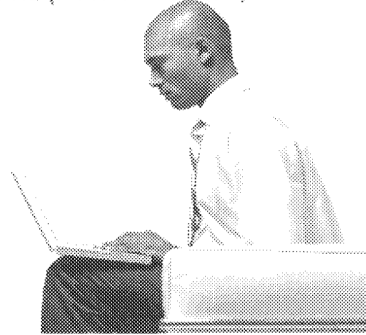
- **Post Office business strategy – what if tomorrow's requirements are different from today's?**

- HNG-X offers greater choice to Post Office over how Post Office execute its branch service strategy
  - Choice in POS technologies (hand-held, mobile to fixed counter)
  - Ability to re-use IT capacity to support other business operations (e.g. ref data/ MI)
  - Ability to scale-up/down variable costs in line with business size (60% variability)
- Service Partnership will place Fujitsu in a better position to help Post Office optimise its overall IT spend, whatever the business strategy becomes.

## HNG-X Investment Considerations (3)

### Timing – why act now?

- Realise benefits at the earliest opportunity
- Get most value from existing fixed costs (Post Office staff, pre-paid, etc)



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## Service Changes

“Impact analysis”



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## Summary of changes proposed

- Helpdesk
  - Shared helpdesk environment
  - Introduction of multimedia call logging
- Networks
  - Change in ADSL technology
- Engineering
  - Introduction of next-day service SLT
  - Continued support of existing branch equipment
- Data Centre
  - Migration from A&L to Fujitsu data centres
  - Change from live-live config to live-DR&Test

**No change from previous presentation**

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## Service Impact Comparison

- Assumptions Used (in-line with Post Office's CD v1.1)

### Common Variables

|                               |             |                                                          |
|-------------------------------|-------------|----------------------------------------------------------|
| Core Hours/Year Central       | 2,860 hours | 08:00 to 18:00 Monday to Friday, 08:00 to 13:00 Saturday |
| Percentage of Hours Critical  | 15%         |                                                          |
| MTBF as per Engineering Model |             | MTBF Annual Degradation 5%                               |
| Time to Fix 2005              | 8 hours     | Time to Fix post roll out 11 hours                       |
| Percentage banking / On line  | 100%        | No of help desk calls requiring reboot 1 p.a.            |

### HNG-X

- Back up network
- Reduced engineer calls on PC
- Single Live data centre with Resilience
- Shorter reboot time

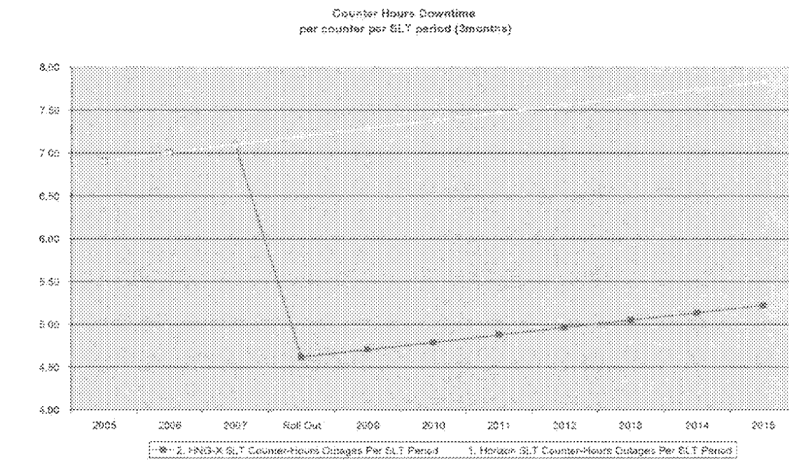
**Broadly equivalent to Fujitsu's HNG response to CD 1.1 Service Level Targets**

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## Forecast Reduction in Counter Hours Down-time

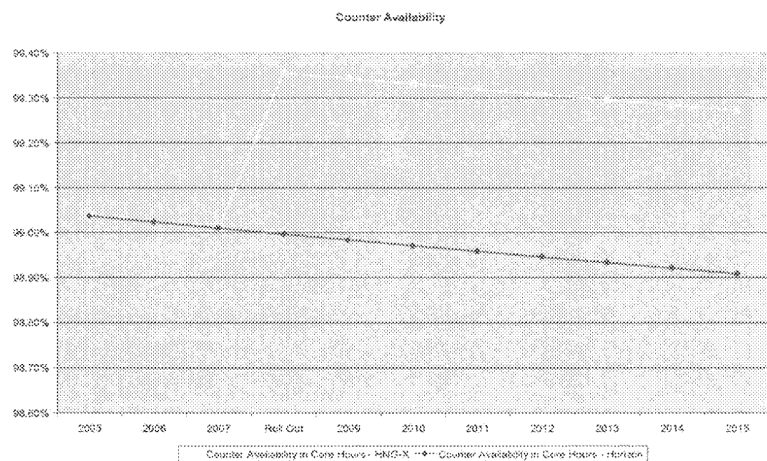


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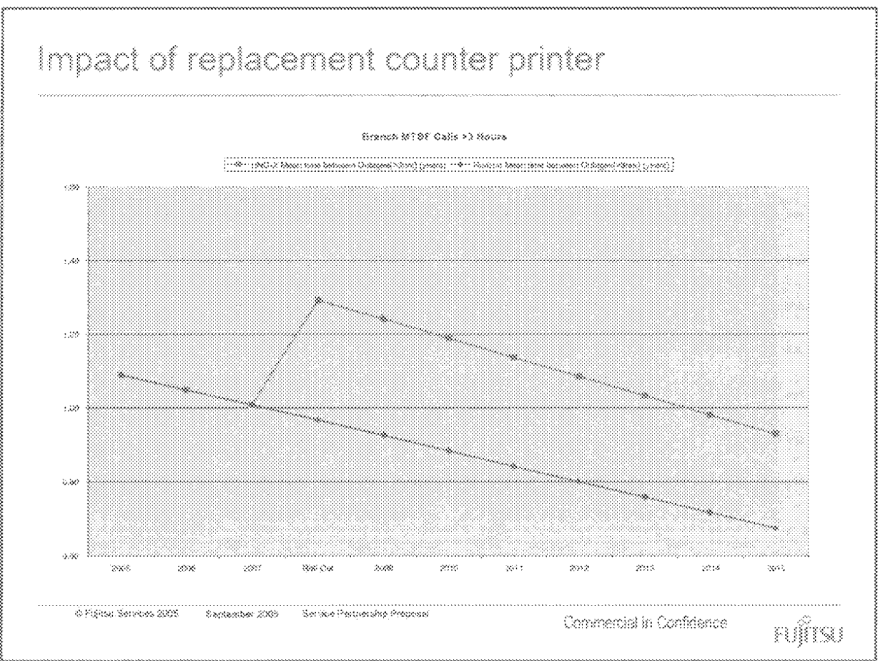
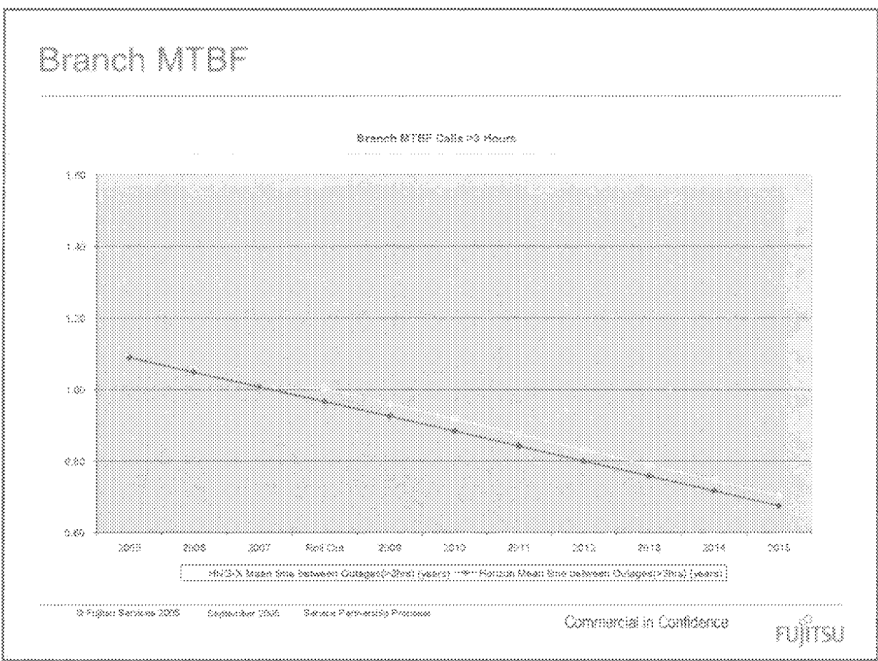
## Counter Hour Availability




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**Business Service Partnership**

  
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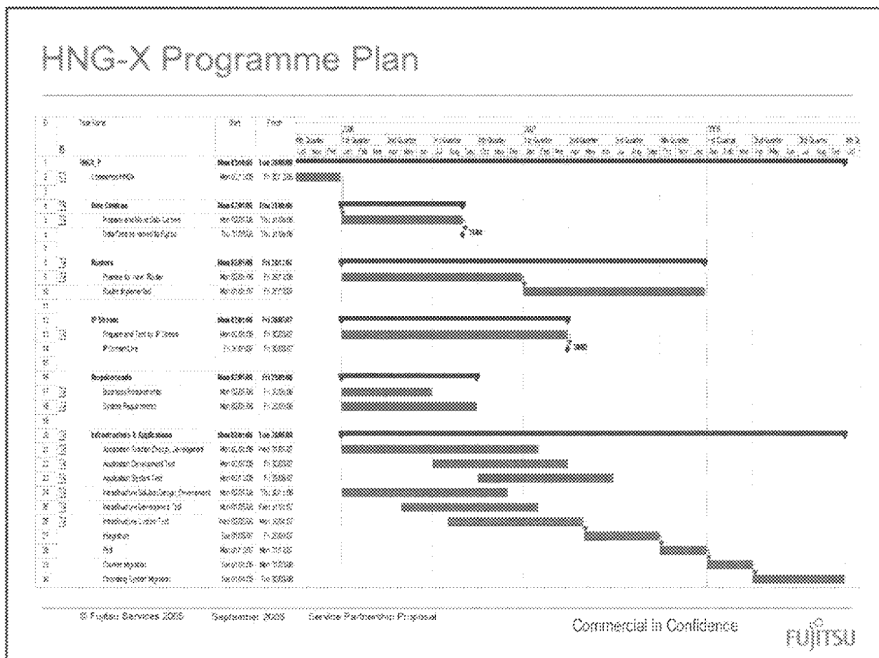
# HNG-X Migration

"Continuity of Service"



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## Key Programme Milestones

- Kick-Off October 2005 looking at Requirements Process, Infrastructure Design, Planning & Resourcing.
- Business Requirements Baseline in June 2006.
- Horizon Data Centres migrate in August 2006.
- Router "Lazy" deployment during 2007.
- IP Stream "Live" in March 2007.
- Application Design, Development & Test January 2006 to September 2007.
- Application Pilot – Q3 2007/8.
- Application Migration – Q4 2007/8 (followed by operating system upgrade).

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## Assumptions

- Project work commences 1<sup>st</sup> October (under commercial cover).
- Contract in place by 1<sup>st</sup> Jan 2006.
- Engagement approach:
  - Robust Programme Management structure established.
  - Business Equivalence, details to be agreed.
  - Joint Requirements Team, leveraging domain knowledge.
  - Design/Development involvement to identify change early.
  - Joint Testing Approach to drive down costs.
- Harness Fujitsu's off-shore/near-shore capabilities.
- Exploit HNG re-use opportunities where appropriate.
- Data Centre model (Active/DR) is acceptable.
- Migration can be achieved without Branch visits.

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# Next Steps



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# Next Steps

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The Fujitsu logo is centered within a dotted rectangular border. It features the word "FUJITSU" in a bold, serif font. Above the letter "J" is a stylized infinity symbol ( $\infty$ ).

THE POSSIBILITIES ARE INFINITE

Analysis of savings returned to PO in HNG-X for smaller network size and transaction volumes

|                                | Y09  | Y10  | Y11  | Y12  | Y13  | Y14  | Y15  | Total Saving | Total Ops | Amount of Incremental Business      |        |        |         |
|--------------------------------|------|------|------|------|------|------|------|--------------|-----------|-------------------------------------|--------|--------|---------|
|                                |      |      |      |      |      |      |      |              |           | none                                | £1m pa | £5m pa | £10m pa |
| Scenario 1                     | 3.64 | 3.08 | 3.03 | 2.98 | 2.89 | 2.85 | 2.82 | 21.29        | 230.00    | 9.92                                | 14.72  | 17.63  | 21.29   |
| Scenario 2                     | 7.26 | 6.15 | 6.04 | 5.95 | 5.76 | 5.69 | 5.63 | 42.48        | 230.00    | 19.79                               | 29.38  | 35.18  | 42.48   |
| Scenario 3                     | 8.49 | 7.19 | 7.06 | 6.96 | 6.73 | 6.65 | 6.59 | 49.67        | 230.00    | 23.14                               | 34.35  | 41.14  | 49.67   |
|                                |      |      |      |      |      |      |      |              |           | Percentage of saving returned to PO |        |        |         |
| Scenario 1                     |      |      |      |      |      |      |      |              |           | 46.6%                               | 69.1%  | 82.8%  | 100.0%  |
| Scenario 2                     |      |      |      |      |      |      |      |              |           | 46.6%                               | 69.2%  | 82.8%  | 100.0%  |
| Scenario 3                     |      |      |      |      |      |      |      |              |           | 46.6%                               | 69.2%  | 82.8%  | 100.0%  |
|                                |      |      |      |      |      |      |      |              |           | Percentage reduction on Ops Chrgs   |        |        |         |
|                                |      |      |      |      |      |      |      |              |           | 4.3%                                | 6.4%   | 7.7%   | 9.3%    |
|                                |      |      |      |      |      |      |      |              |           | 8.6%                                | 12.8%  | 15.3%  | 18.5%   |
|                                |      |      |      |      |      |      |      |              |           | 10.1%                               | 14.9%  | 17.9%  | 21.6%   |
| Amount of Incremental Business |      |      |      |      |      |      |      |              |           |                                     |        |        |         |
| none                           | 10%  | 20%  | 30%  | 40%  | 60%  | 80%  | 100% |              |           |                                     |        |        |         |
| £1m pa                         | 20%  | 40%  | 60%  | 80%  | 100% | 100% | 100% |              |           |                                     |        |        |         |
| £5m pa                         | 50%  | 60%  | 80%  | 100% | 100% | 100% | 100% |              |           |                                     |        |        |         |
| £10m pa                        | 100% | 100% | 100% | 100% | 100% | 100% | 100% |              |           |                                     |        |        |         |

| Current Grades    | Rate per working day | Rate per hour | Per hour - 20% discount | Per hour - 27.5% disc | Proposed Grades                      | Rate per working day |            |          | Rate per hour |            |          | Saving/(Cost) relative to full rate |            |          | Saving/(Cost) relative to 20% disc |            |          | Saving/(Cost) relative to 27.5% disc |            |          |
|-------------------|----------------------|---------------|-------------------------|-----------------------|--------------------------------------|----------------------|------------|----------|---------------|------------|----------|-------------------------------------|------------|----------|------------------------------------|------------|----------|--------------------------------------|------------|----------|
|                   |                      |               |                         |                       |                                      | On Shore             | Near Shore | Offshore | On Shore      | Near Shore | Offshore | On Shore                            | Near Shore | Offshore | On Shore                           | Near Shore | Offshore | On Shore                             | Near Shore | Offshore |
| Software Engineer | £686                 | £85.71        | £68.56                  | £62.14                | Systems Engineer                     | £462                 | £436       | £168     | £62.43        | £58.92     | £22.70   | 27%                                 | NA         | NA       | 9%                                 | 14%        | 67%      | -0%                                  | 5%         | 83%      |
|                   |                      |               |                         |                       | Senior System Engineer               | £560                 | £452       | £178     | £75.68        | £81.08     | £24.06   | 12%                                 | NA         | NA       | 10%                                | 11%        | 65%      | -22%                                 | 2%         | 61%      |
|                   |                      |               |                         |                       | Lead System Engineer                 | £650                 | £486       | £194     | £89.05        | £65.88     | £26.22   | -4%                                 | NA         | NA       | -30%                               | 4%         | 62%      | -43%                                 | -6%        | 58%      |
| Project Manager   | £823                 | £102.85       | £82.28                  | £74.56                |                                      |                      |            |          |               |            |          |                                     |            |          |                                    |            |          |                                      |            |          |
| Consultant 1      | £1,098               | £137.23       | £109.79                 | £99.49                | Consultant, Unit Leader              | £771                 | £570       | £270     | £104.18       | £77.03     | £36.49   | 24%                                 | NA         | NA       | 5%                                 | 30%        | 67%      | -5%                                  | 23%        | 83%      |
| Consultant 2      | £1,448               | £181.06       | £144.85                 | £131.27               | Senior Consultant, Manager           | £952                 |            |          | £128.65       |            |          | 29%                                 |            |          | 11%                                |            |          | 2%                                   |            |          |
| Senior Management | £1,655               | £206.92       | £165.54                 | £150.02               | Senior Manager, Principal Specialist | £1,118               |            |          | £151.08       |            |          | 27%                                 |            |          | 9%                                 |            |          | -1%                                  |            |          |

POST OFFICE CONFIDENTIAL - COMMERCIAL

**HNG-X Proposal Hot Topics**

- Ways of Working proposed is the opposite of what PO asked for.
- Principles of transparency, joint team incentivisation etc. are not implemented in the presentation of the costs & commercials.
- Management of other suppliers by Fujitsu — acceptable to PO in context of a SI partnership, but this is an outsource and implies greater loss of direct control.
- Fujitsu used to run the Technical Service Desk and we took it away from them because they were not VFM and did not provide the required service. What has changed to make us give it back?
- Development methodology — risk/cost/decision making
- Offshoring — who takes the risk that it is feasible and delivers the expected savings? If T&M contract, it seems to be PO risk. — is offshoring to be used for support, and what savings have been attributed to this?
- E2E testing capability
- Acceptance process — is it close enough to requirements; will it ensure fitness for purpose?
- Feasibility of 3 month roll-out — business change capacity — what are costs if longer?
- Training for roll-out (no training solution in branches)
- Counter availability figures look suspect, based on what we have seen of the detail — seem to be effects that have been omitted from Fujitsu's analysis
- Risk/cost/service impact of keeping existing hardware
- MTBF — proposed 120% cap on cost risk taken by Fujitsu before roll-out of new app is worse than current contractual position and would result in an immediate price increase over the proposal (subject to confirmation of what they mean by "baseline").
- Luggables and their replacement — timing & implications for Rural b.a.u. and Rural programme
- Future change — low rate of change assumed — what is basis for cost if more? — is reference data change also restricted? — OBC only includes closures; refurbishments and relocations would cost more.
- Charges are "estimated" — when will they be committed and on what basis?
- Which savings depend on which changes (app and new infrastructure architecture)?
- Need clarification of which "options" are included in the price.
- Strive — description seems to include the reductions already in the pricing (5% p.a. productivity = 13% of offered price by end of contract). - What are assumed obligations on PO to help Fujitsu deliver the strive? — We would expect to be below market norm prices (if this means 50%ile) not at them?
- Price variability is low
- After 2010, operating charges have increased relative to <sup>Tom Paswood</sup> even though there are reductions in Services and Service Levels and improved use of telecomms discussed over the past 2-3 weeks.
- Fujitsu want to own the IPR — PO still paying full cost of development.
- Timescale for Oct 31 agreement is challenging.
- What are Fujitsu intending to do in Oct-Dec 2005 — all activities with specific content seem to start in January.
- Is the extension of exclusivity acceptable to PO?

POST OFFICE CONFIDENTIAL - COMMERCIAL

**COMPARISON : JUNE minus SEPTEMBER****Cost Reduction / (Increase)**

| £m excluding VAT and without inflation     | Y 06 | Y 07 | Y 08 | Y 09 | Y 10 | Y 11 | Y 12 | Y 13 | Y 14 | Y 15 | TOTAL |
|--------------------------------------------|------|------|------|------|------|------|------|------|------|------|-------|
| <b>TOTAL OPERATIONAL SERVICE CHARGES</b>   | -2.4 | 1.5  | 4.9  | 7.0  | 3.5  | -0.7 | -0.4 | -0.6 | -0.3 | -0.4 | 12.3  |
| Services Infrastructure Set-up Charges     | 4.0  | 3.7  | 1.3  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 9.0   |
| <b>SYSTEMS INTEGRATION</b>                 |      |      |      |      |      |      |      |      |      |      |       |
| Application Development                    | 11.9 | 2.1  | -1.2 | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 12.8  |
| Ongoing SI Support                         | 1.0  | 1.2  | 2.0  | 1.6  | 1.4  | 2.3  | -0.6 | -0.5 | -0.4 | -0.3 | 7.9   |
| Ongoing SI available for Prepay            | 0.2  | 1.1  | 0.9  | 0.7  | 0.7  | 4.7  | 4.7  | 4.7  | 4.7  | 4.7  | 27.0  |
| SI Additional                              | 0.0  | 0.0  | 0.0  | 0.0  | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | 0.0  | 0.0   |
| <b>IMPLEMENTATION</b>                      |      |      |      |      |      |      |      |      |      |      |       |
| Capital costs for Counter and Data Centres | 2.3  | -7.2 | 31.9 | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 26.9  |
| Implementation charges                     | 0.0  | 0.0  | 11.3 | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 11.3  |
| <b>AVAILABILITY FEE AND CREDITS</b>        | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0   |
| <b>IMPLEMENTATION FEES (Sch 10)</b>        | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0   |
| <b>TOTAL</b>                               | 17.0 | 2.4  | 51.2 | 9.4  | 5.6  | 6.3  | 3.8  | 3.7  | 4.0  | 4.0  | 107.3 |

SEPTEMBER PROPOSAL £m excluding VAT and without inflation

PRICING MODEL - FUJITSU PRICING BASIS

TOTAL OPERATIONAL SERVICE CHARGES

SYSTEMS INTEGRATION

Application and Infrastructure Development  
Ongoing SI Support  
Ongoing SI available for Prepay  
SI Additional

IMPLEMENTATION

Capital costs for Counter and Data Centres

AVAILABILITY FEE AND CREDITS

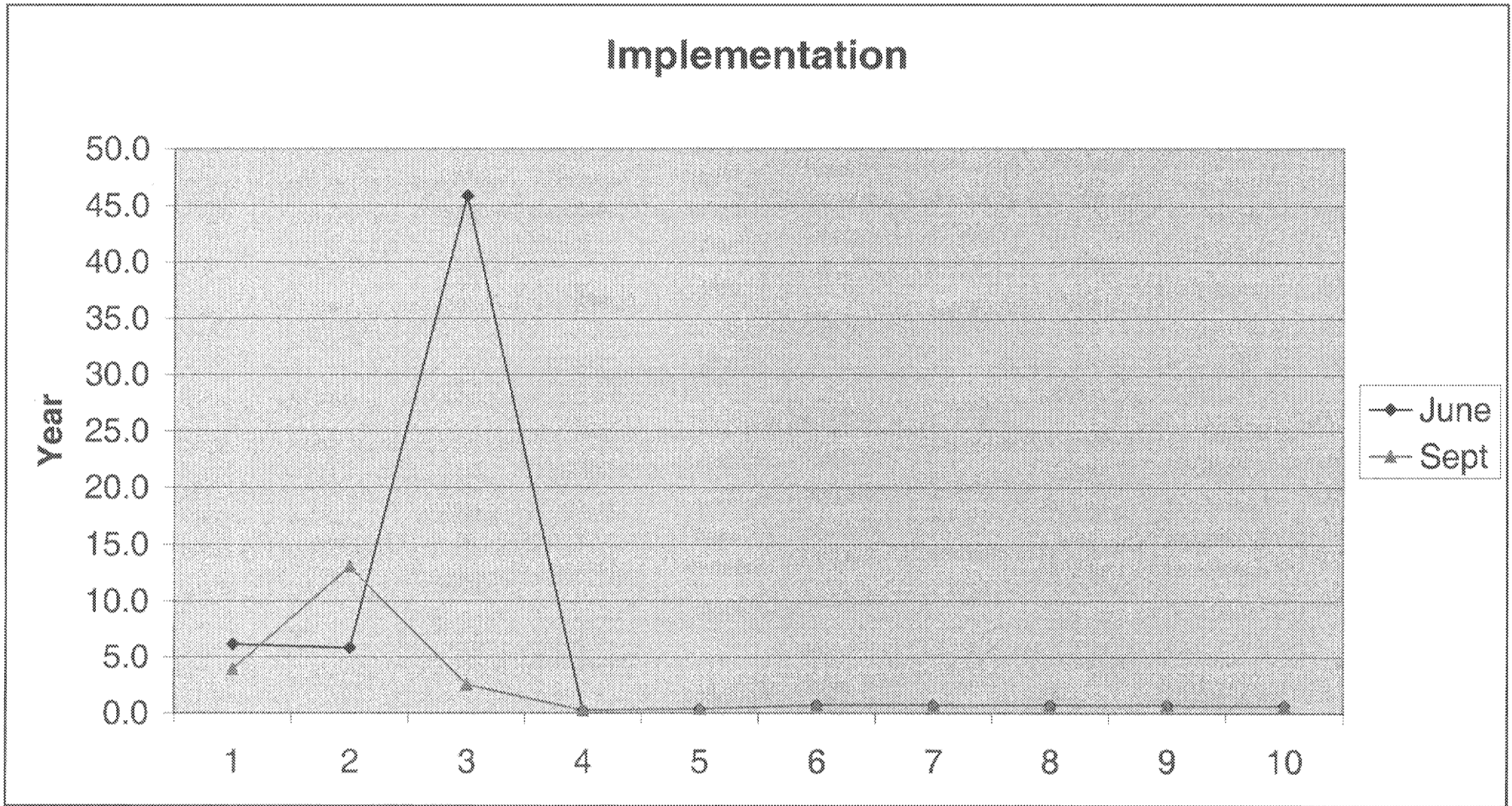
IMPLEMENTATION FEES (Sch 10)

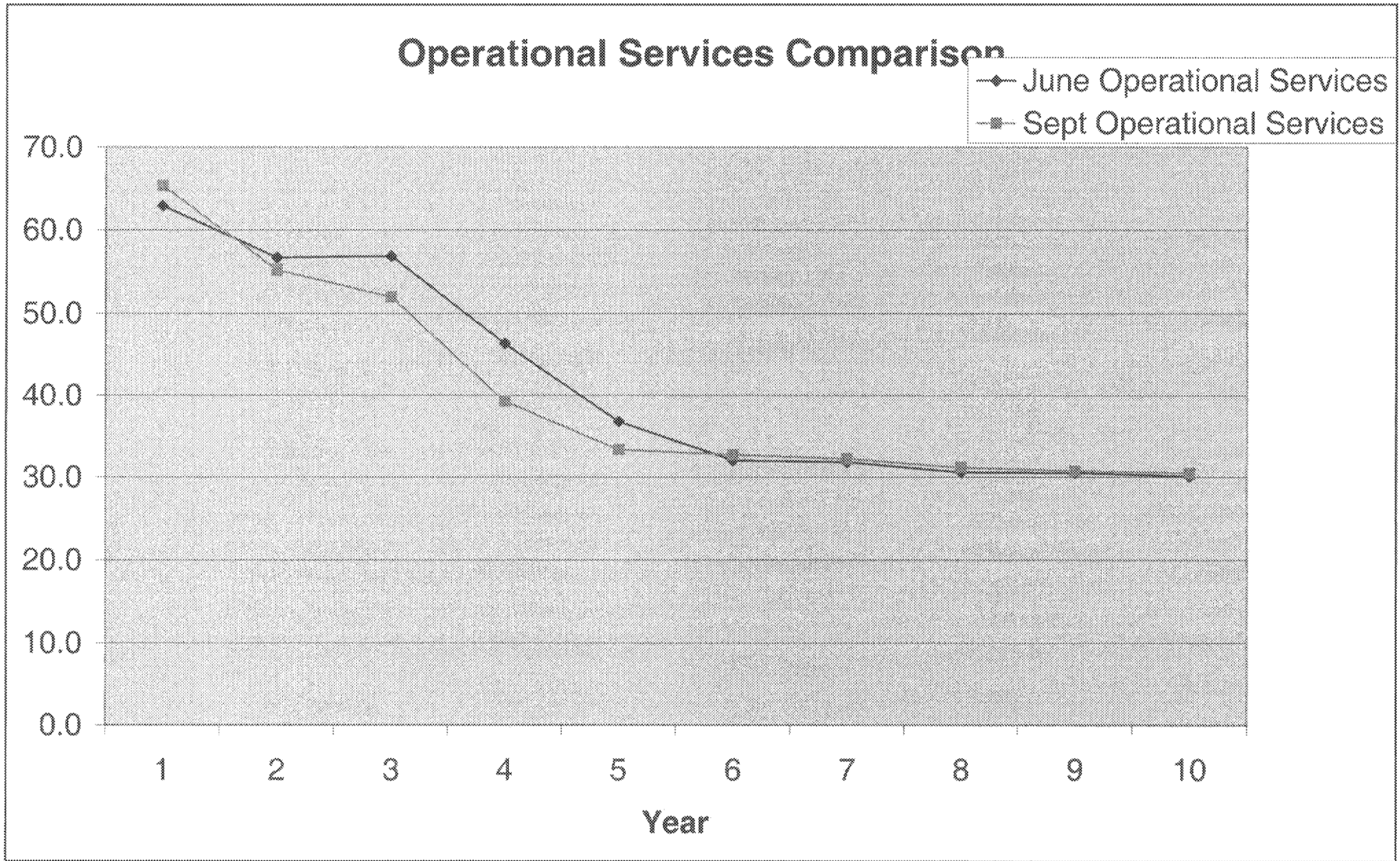
TOTAL

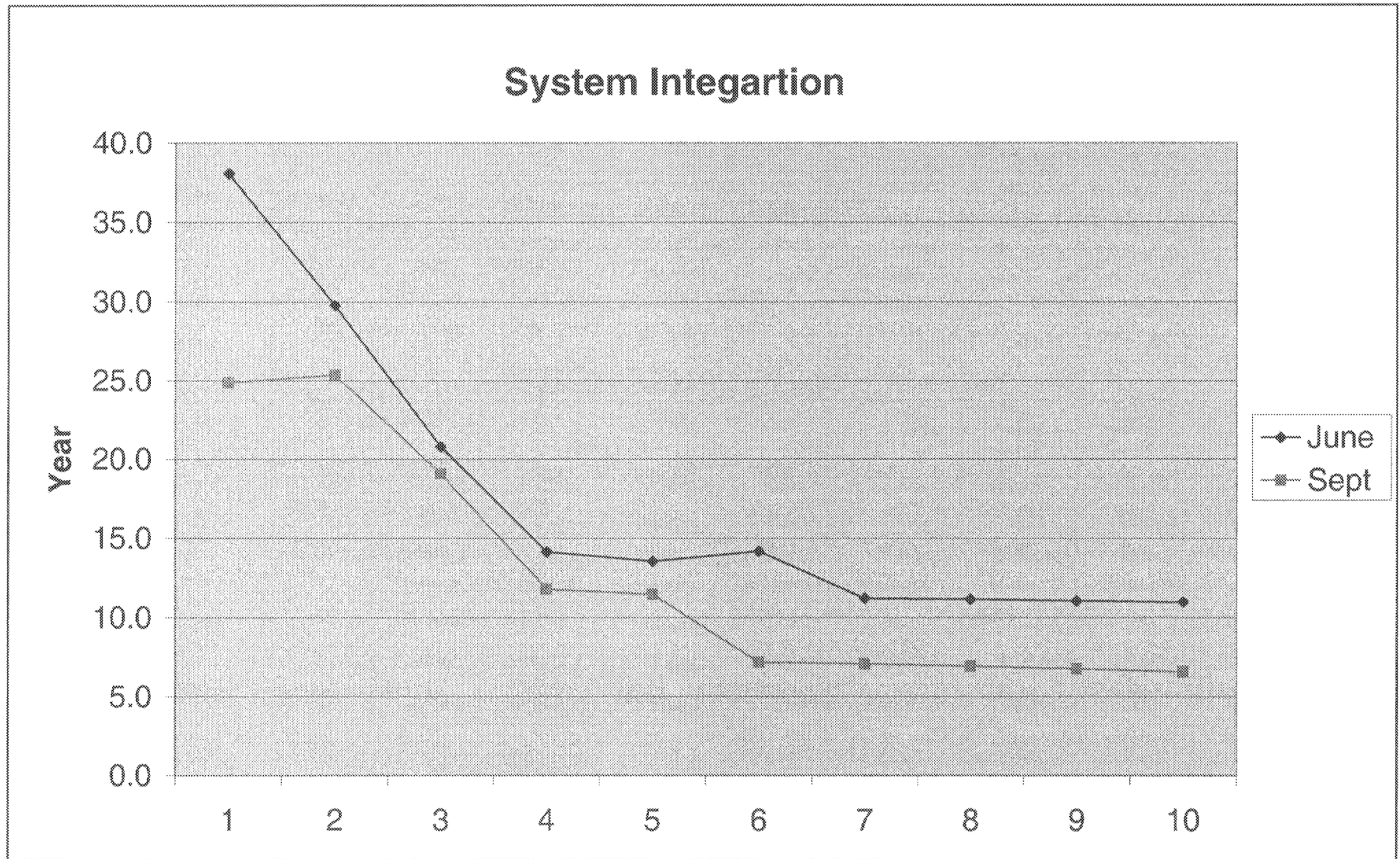
|                                            | Y 06  | Y 07 | Y 08 | Y 09 | Y 10 | Y 11 | Y 12 | Y 13 | Y 14 | Y 15 | TOTAL |
|--------------------------------------------|-------|------|------|------|------|------|------|------|------|------|-------|
| TOTAL OPERATIONAL SERVICE CHARGES          | 65.3  | 55.2 | 52.0 | 39.3 | 33.3 | 32.7 | 32.2 | 31.2 | 30.8 | 30.5 | 402.4 |
| SYSTEMS INTEGRATION                        |       |      |      |      |      |      |      |      |      |      |       |
| Application and Infrastructure Development | 1.3   | 10.1 | 5.4  |      |      |      |      |      |      |      | 16.9  |
| Ongoing SI Support                         | 11.1  | 8.9  | 8.6  | 7.8  | 7.5  | 7.2  | 7.1  | 6.9  | 6.8  | 6.6  | 78.3  |
| Ongoing SI available for Prepay            | 7.1   | 6.3  | 5.0  | 4.0  | 4.0  |      |      |      |      |      | 26.5  |
| SI Additional                              | 5.4   | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 5.4   |
| IMPLEMENTATION                             |       |      |      |      |      |      |      |      |      |      |       |
| Capital costs for Counter and Data Centres | 3.9   | 13.1 | 2.6  | 0.3  | 0.4  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 23.8  |
| AVAILABILITY FEE AND CREDITS               | 10.0  |      |      |      |      |      |      |      |      |      | 10.0  |
| IMPLEMENTATION FEES (Sch 10)               | 1.6   | 0.1  |      |      |      |      |      |      |      |      | 1.7   |
| TOTAL                                      | 105.7 | 93.8 | 73.6 | 51.3 | 45.2 | 40.6 | 40.0 | 38.8 | 38.2 | 37.7 | 565.0 |

**JUNE PROPOSAL** £m excluding VAT and without inflation

| PRICING MODEL                              | Y 06         | Y 07        | Y 08         | Y 09        | Y 10        | Y 11        | Y 12        | Y 13        | Y 14        | Y 15        | TOTAL        |
|--------------------------------------------|--------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| <b>TOTAL OPERATIONAL SERVICE CHARGES</b>   | <b>62.9</b>  | <b>56.7</b> | <b>56.9</b>  | <b>46.3</b> | <b>36.8</b> | <b>32.0</b> | <b>31.8</b> | <b>30.6</b> | <b>30.5</b> | <b>30.1</b> | <b>414.6</b> |
| Services Infrastructure Set-up Charges     | 4.0          | 3.7         | 1.3          |             |             |             |             |             |             |             | 9.0          |
| <b>SYSTEMS INTEGRATION</b>                 |              |             |              |             |             |             |             |             |             |             |              |
| Application Development                    | 13.2         | 12.2        | 4.2          |             |             |             |             |             |             |             | 29.7         |
| Ongoing SI Support                         | 12.1         | 10.1        | 10.7         | 9.4         | 8.8         | 9.5         | 6.5         | 6.5         | 6.4         | 6.3         | 86.2         |
| Ongoing SI available for Prepay            | 7.3          | 7.4         | 5.9          | 4.7         | 4.7         | 4.7         | 4.7         | 4.7         | 4.7         | 4.7         | 53.5         |
| SI Additional                              | 5.4          | 0.0         | 0.0          | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 5.4          |
| <b>IMPLEMENTATION</b>                      |              |             |              |             |             |             |             |             |             |             |              |
| Capital costs for Counter and Data Centres | 6.2          | 5.8         | 34.5         | 0.3         | 0.4         | 0.7         | 0.7         | 0.7         | 0.7         | 0.7         | 50.8         |
| Implementation charges                     |              |             | 11.3         |             |             |             |             |             |             |             | 11.3         |
| <b>AVAILABILITY FEE AND CREDITS</b>        | <b>10.0</b>  |             |              |             |             |             |             |             |             |             | <b>10.0</b>  |
| <b>IMPLEMENTATION FEES (Sch 10)</b>        | <b>1.6</b>   | <b>0.1</b>  |              |             |             |             |             |             |             |             | <b>1.7</b>   |
| <b>TOTAL</b>                               | <b>122.7</b> | <b>96.2</b> | <b>124.8</b> | <b>60.7</b> | <b>50.7</b> | <b>46.9</b> | <b>43.8</b> | <b>42.5</b> | <b>42.3</b> | <b>41.7</b> | <b>672.3</b> |







Rory Silkin

14/09/2005 09:47

To: Keith K Baines; **GRO**

cc:

Subject: Re: Latest Fujitsu Proposal

Keith

I have had a look at Fujitsu's proposal document, especially the parts you suggested.

**2.2 Governance.** It seems to me that the idea of an equally balanced 'small group' to examine initiatives is fine, but would run into problems if it were deadlocked. In practice, one faction (POL?) would have to have a casting vote. This would be true even if it were merely recommending an idea to another board; should initiative X be sent upwards for consideration or not? Lastly, the statement "Service Management encompassing continuous improvement", seems rather opaque to me.

**2.3 Strive.** I think this could prove tricky to draft, as the opportunities that are the subject of the strive are undefined, or even unknown at the moment. At best, the drafting would have to be rather vague, which could store up trouble for the future. The items headed 'Assures value for money ...' and 'Gain share', though reasonably familiar in management terms, are difficult to pin down sufficiently to draft. It can be done, but requires a good deal of negotiating to pin down precisely which kind of gain share model (or models) are available, and when, and how value for money is assured. Perhaps this is an over-emphasis. However, most of the cost gains ride on this kind of wording, so it will require a great deal of attention.

**2.5 Service Management Engagement.** I note that Fujitsu is again proposing that it should act as a single Systems Integrator, with management responsibility for all of the parts/ services, whether supplied by them or not. I haven't found anything about putting parts of the work out to third parties, but perhaps I'm missing something.

**3.3.1 SI Support** Much of the cost savings seem to depend on a low rate of change of the application after 2010. Is that fair?

**3.4.2. Basis for decision.** POL is apparently required to underwrite Fujitsu's suggestion that the equipment will degrade at the rate of 5% per annum (from now or 2010?). Is POL willing to take this risk?

Running a mixed estate creates drafting problems in terms of remedies, as we have already found with the earlier discussions with FS.

**6. Commercial Summary.** I don't have anything particularly to say about this section, at this level of detail.

Kind Regards, Rory.

Keith K Baines

Keith K Baines

12/09/2005 18:16

To: Rory Silkin; **GRO**

cc:

Subject: Latest Fujitsu Proposal

Rory,

I copied Fujitsu's latest offering to you earlier this afternoon. Could you have a look at sections 2 (Governance) and 6 (Commercial) of the main proposal document from the viewpoint of how easy/difficult it would be to contract on the proposed basis, and any big issues to be dealt with, big risks to be mitigated, if we were to do so. Ideally, I'd like your initial reactions by late morning on Wednesday since Fujitsu are presenting to us

on Weds. pm.

(PS - feel free to review and comment on any other parts of the document.)

Regards,

Keith

george kent-smith

13/09/2005 15:13

To: Clive Read/[redacted] GRO  
cc: Keith K Baines/[redacted] GRO Mike J  
Hannon/[redacted] GRO  
Subject: HNG - X proposal

Clive,  
Comments below.

General observation there is no financial cost associated with any of the proposed work elements. Additionally there are no specific savings associated with initiatives.

Data Centres - All new kit? No reuse of existing kit? Ownership? Who selects and on what basis? Criteria and requirements? Design?

No mention of DMZ rationalisation opportunities. Firewalls or AV not mentioned.

DR recovery and invocation needs to be detailed.

Assumptions

2.5 IPStream has a SLT why not quote it Vs best endeavours

3.11 tied in with 7.10 With router and wireless modem multiple networks can be supported

3.12 20% of what?

5.13 Who's risk?

7.10 Wireless back up replaces BNR at retirement time?

Regards.

George Kent-Smith



Kevin Tallboy

14/09/2005 13:02

To: David X Smith [GRO] Beverley  
 Dunn [GRO] E. Ian  
 O'Driscoll [GRO] Keith K  
 Baines [GRO]  
 cc: John Wheeler [GRO] Paul  
 Homan [GRO] Clive  
 Read [GRO] Mark  
 Burley [GRO] Steve  
 Page [GRO] Will  
 Russell [GRO] Lyn  
 Darbon [GRO] Kevin X  
 Thompson [GRO] Gary  
 Eline [GRO] Graeme  
 Seedall [GRO] Adrian  
 Batt [GRO] Dave  
 Parnell [GRO] Jason  
 Crellin [GRO] Mike J  
 Hannon [GRO] Lup  
 Yaul [GRO] Debbie G  
 Jones [GRO]

Subject: Summary of Non Commercial Key points from initial review of HNG-X proposal

John asked me to drop round a summary of the Non Commercial Key points from initial review of HNG-X proposal:

From the comments received to date and yesterday's conference call here are key areas of concern;

- 
- Acceptance process is unclear - we need to know what the process will be and what impact that has on POL.
- Black Box Issue - Lack of involvement from POL into the Design and Development of HNG-X. - Involvement around Des & Dev is around areas of issues (etc) where FJS get to decide that we should be involved. Strategic architecture / technology decisions need to be owned by POL
- Larger footprint for Interstage runs counter to Gartner advice / recommendation
- Move from Web Service to J2EE architecture increases proprietary lock-in and overheads. Likely to add to maintenance and development costs over time
- No formal commitments on availability as stated within HNG CD, not clear what commitments would be made on Central Infrastructure ( requirement was for 4 year MTBF )
- Linkage to external IT commodity prices is limited (c 13% over life / by end of contract???)
- There are more radical architecture models (eliminating Fujitsu middle tier over time) which are tacitly rejected.
- Architecture (expands black box issue) - POL get to see architecture but not to approve (quote unquote from text)
- Business Equivalence - POL need to fully understand the paper presented by FS.
- Criticality of getting requirements right first time - feeds into Black Box issue
- Counter Availability predictions - Appear to be good, but we need to understand the data supporting these predictions. We need to see the model FS are using.
- No visibility of Field Engineering breakdown or Network costs or profile of these over life of contract
- No explicit assumptions to underpin availability curves
- Concerns around Governance proposal - Single Programme Office?
- POL need to be happy with the assertion made in the proposal that it is based upon a reduction in the amount of change. - pricing conditional on this
- Cost comparison is not like for like with HNG. e.g. Training (Steve Page is compiling a list and will issue by COB today)
- Thin Client ruled out at any time 'on proposed Network Infrastructure' - contradicts last week's statements

Regards,

Kevin J Tallboy  
HNG Planning Manager  
Postline  
Mobile: **GRO**

John Wheeler  
15/09/2005 10:12

To: David X Smith, [GRO] Keith K  
Baine, [GRO] Clive  
Read, [GRO] Mike A  
Wells, [GRO] Ian  
O'Driscoll, [GRO] Beverley  
Dunn, [GRO]

cc:  
Subject: Quick summary of last night

Pls see as below which I put together to update the team. (Includes a summary of the questions we posed at the end).

Rgds

John Wheeler  
Horizon NG Programme Support  
Mobile : [GRO]  
Desk number : [GRO]

----- Forwarded by John Wheeler, [GRO] on 15/09/2005 10:09 -----

John Wheeler  
15/09/2005 10:09

To: Steve Page, [GRO] Paul  
Homas, [GRO] Will  
Russell, [GRO] Lyn  
Darbon, [GRO] Mark  
Burley, [GRO] Kevin X  
Thompson, [GRO] Kevin  
Tallboy, [GRO] Gary  
Eilner, [GRO] Graeme  
Seedall, [GRO] Adrian  
Batt, [GRO] Dave  
Parnell, [GRO] Jason  
Crellin, [GRO] Beverley  
Dunn, [GRO]  
cc: Lup Yau, [GRO] Debbie G  
Jones, [GRO] Kevin  
Tallboy, [GRO] Tim  
Gillott, [GRO] Clive  
Read, [GRO]

Subject: Quick summary of last night / any more comments or questions on the proposal?

The session last night with Fujitsu focused on a number of areas where PO sought additional clarity (i.e broad agenda):-

1. Ways of working
2. Transparency on the numbers (financial and service / MTBFs)
3. What the Strive proposal actually means
4. How we go forward

On this latter point, we have agreed to get FS a preliminary set of questions by lunchtime today, with follow-ups to follow when we can. FS will work on the questions (and work with us) over the course of next week to get clarity by the time Ric returns from holiday (w/c 26/09).

Therefore - pls let me and Kevin and Debbie have any more "high priority" questions this morning by 11:00.

1. On Ways of Working, there was a heated debate, but broadly the FS commercial team seemed to recognise this could be a show-stopper, and are softening away from the Black Box approach. Dave has a meeting with FS tomorrow to continue discussions - we will need to ensure Design ownership/ways of working is on the agenda as well as contractual ways of working.

2. On Transparency of numbers - no real detail at the meeting but FS have confirmed they will work openly with us and provide their detailed calculations and assumptions. This will enable us to confirm the financials (which on face value look good) and the Counter availability graphs which again look good but which we don't understand how they got there! We will work together to understand which elements of the proposed architecture drive which cost savings

3. Strive was clarified : some is already included in the proposal (ie underwritten by FS), but there is an additional unspecified amount to push for... they will give us some indication of what this assumed level is (but will not contract for it).

4. Over the next week we will :-

- provide set of questions to FS (and more importantly hold set of discussion as required)
- work on agreed ways of working
- estimate POL costs
- first stab at quantifying risk contingencies
- get ready for talking to Ric

Later - we need to work out "will the architecture work" .... due diligence activities to be led by Mike

Summary of questions / reponses / broad discussions is as below (the specific questions will be repeated in the question set for FS this morning).

- 1 **FS** - Provide expected mix of offshore / onshore development
- 2 **FS** - Confirm how pre-paid has been treated on comparison graph under 6.1
- 3 **FS** - Why is SI support higher than before (expected to be because of re-balancing of activities)
- 4 **FS** - Why is the high level architecture proposed the most appropriate to achieve our savings (we have been given a fait accompli) - FS happy to take us through the architectural rationale and "journey" to the proposal (await return of Giacomo on Monday)
- 5 **FS** - What is the likely size of the additional strive
- 6 **Joint** - joint review of the variability of pricing with network size - FS's interpretation is more bullish than ours
- 7 **FS** - Which elements of the proposed architecture drive which cost savings
- 8 **FS** -What are the differences from what we were getting before under the BAFO (app and service). Note that Bill Reynolds said they were planning to do a check against the HNG compliance matrix next week.
- 9 **Joint** - JOINT WORKING/ BLACK BOXING - Not FS's intention to keep us out - but reaffirmed that if they have to take accountability for SLAs, they need to own the design. For further conversation, but at least FS recognise it as a major concern for us.
- 10 **Joint** - Counter availability / MTBFs - FS will work with us to allow us to drill into numbers. One key concern is the impact on outlying / single counter offices, particularly given negative press recently
- 11 **PLAN** assumptions - Assumption made to start programme in Oct 2005, initially looking at Requirements an acceptance process, Infrastructure design, planning and resourcing
- 12 **PLAN** assumption - Look to get Requirements Baseline complete in June 2006
- 13 **FS** - When the new router is installed, do we lose existing resilience (specific question around Assumption 7.10)
- 14 **POL** - Funding - FS seeking funding from October. POL to review options

Pls get back to me with any questions

Thanks

John Wheeler  
Horizon NG Programme Support

Mobile :

Desk number :

John Wheeler

15/09/2005 14:54

To: bill.reynolds [GRO] colin.lenton-smith [GRO]  
cc: Beverley.Dunn [GRO] Paul  
Homan [GRO] David X  
Smith [GRO] Keith K  
Baines [GRO] Ian  
O'Driscoll [GRO] Clive  
Read [GRO] Mike A  
Wells [GRO]

Subject: Initial set of questions on HNG-X proposal.

Colin / Bill (for forwarding as appropriate)

I attach our initial set of questions on the HNG-X proposal. Once we have had time to collate other views, I will forward any additions or changes to this list.

For completeness I have included the questions raised last night at the start of the document, and outlined the key areas for further detailed working together (notably Ways of Working and detailed analysis of service-affecting data).

Some of these are super-sets of the detailed questions which follow, and I have included a cross-reference where appropriate (nb this may not be completely accurate in the timescales).

I appreciate answers to these questions will come back at different rates, so can I suggest you give me a call once you have digested them with a view on how you wish to proceed.

Best regards

John Wheeler  
Horizon NG Programme Support

Mobile [GRO]  
Desk number [GRO]



Questions on HNGX proposal ver 1.d




| REF                                                                                       | Source             | Description                                                                                                                                                                                                                                                                                                                                                                   | Question from | Cross reference |
|-------------------------------------------------------------------------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------|
| <b>A. RE-STATEMENT OF ITEMS AS DISCUSSED AT PRESENTATION ON 14<sup>th</sup> SEPTEMBER</b> |                    |                                                                                                                                                                                                                                                                                                                                                                               |               |                 |
| QX-001                                                                                    | Presentation 14/09 | Please provide expected/planned mix of offshore / onshore / nearshore development                                                                                                                                                                                                                                                                                             | S Group       |                 |
| QX-002                                                                                    | Presentation 14/09 | Confirm how pre-paid has been treated on comparison graph under 6.1                                                                                                                                                                                                                                                                                                           | S Group       |                 |
| QX-003                                                                                    | Presentation 14/09 | Why is SI support higher than previous proposal after 2012 (see spreadsheet provided under qx-072 below)                                                                                                                                                                                                                                                                      | S Group       |                 |
| QX-004                                                                                    | Presentation 14/09 | FS to walk POL through the architectural rationale and "journey" to the proposed architecture. This will help to explain why it is the most appropriate architecture for POL (POL are concerned that we have been presented with a fait accompli). Specific queries concern movement to J2EE and larger footprint for Interstage.                                             | S Group       |                 |
| QX-005                                                                                    | Presentation 14/09 | Which elements of the proposed architecture drive which cost savings?                                                                                                                                                                                                                                                                                                         | S Group       |                 |
| QX-006                                                                                    | Presentation 14/09 | What is the likely size and composition of the additional strive (not committed).                                                                                                                                                                                                                                                                                             | S Group       |                 |
| QX-007                                                                                    | Presentation 14/09 | Joint discussions to be undertaken on the variability of pricing with network size - FS's interpretation is more bullish than POL's                                                                                                                                                                                                                                           | S Group       |                 |
| QX-008                                                                                    | Presentation 14/09 | What are the differences from the proposed solution under the June proposal? Note that a check is planned next week against the HNG compliance matrix which will help to provide this at a detailed level.                                                                                                                                                                    | S Group       |                 |
| QX-009                                                                                    | Presentation 14/09 | Ways of working – and concern around "black-boxing" of design. It is not FS's intention for POL to have no influence on design – but FS affirmed that if they are to take accountability for SLAs, FS need to own the detailed design. The detail of the overall ways of working are for further discussion, including programme governance. (Initial meeting on Fri 16 Sep). | S Group       |                 |
| QX-010                                                                                    | Presentation 14/09 | Counter availability / MTBFs - FS will work with POL to drill into detailed data and assumptions so that POL can be reassured over impacts. This will include specific concerns around availability at outlying / single counter offices (which may differ significantly from the average figures).                                                                           | S Group       |                 |



| REF                          | Source   | Description                                                                                                                                                                                                                                                                                                             | Question from   | Cross reference |
|------------------------------|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>B. SPECIFIC QUESTIONS</b> |          |                                                                                                                                                                                                                                                                                                                         |                 |                 |
| QX-011                       | 1.2      | In the table, what is the significance of " <b>lowest</b> infrastructure support costs" as contrasted with " <b>lower</b> application support costs" and " <b>lower</b> operating cost base"?                                                                                                                           | Commercial team |                 |
| QX-012                       | 1.2 (p7) | 2nd sub-bullet under "Service Partnership.."/" Committed cost reductions over the life of the contract"<br>"Underwritten productivity improvements from FS over life of the contract" - stated & detailed where? Warranted?                                                                                             | Comm            |                 |
| QX-013                       | 2.1      | In the diagram, is there any significance to the order of the items listed under "Management" – i.e. are the ones near the top meant to have more POL involvement and the ones at the bottom more FS involvement?                                                                                                       | Programme team  |                 |
| QX-014                       | 2.3      | In the diagram and the following text – are the committed cost reductions included in the prices in the commercial section and spreadsheet?                                                                                                                                                                             | Comm            |                 |
| QX-015                       | 2.3      | In the diagram and the following text – have FS a view of the likely amount of further savings that may be possible – the diagram suggests that the additional opportunity is less than that already committed; is this intended? Please explain what is meant by "NB cost represents Business Cost not just IT costs". | Comm            | QX-006          |
| QX-016                       | 2.3      | In benchmarking – what is the definition of "market norms"?                                                                                                                                                                                                                                                             | Comm/Prog       |                 |
| QX-017                       | 2.3      | In the committed cost reduction – which cost areas benefit from the 5% pa efficiency improvement?                                                                                                                                                                                                                       | Comm            |                 |
| QX-018                       | 2.5      | In what circumstances would bought in services be commercially confidential so as to prevent transparency? Does this apply to any of the existing supply contracts that Fujitsu intends to carry forward into the new service?                                                                                          | Comm            |                 |
| QX-019                       | 3        | Which of the proposed changes result from the new application and which from the new infrastructure architecture?                                                                                                                                                                                                       | Prog/Comm       | QX-005          |
| QX-020                       | 3.2.1.1  | What is the supporting data behind the prediction of 10% on line call logging? What are the penalties for not meeting the target? What are the rewards for beating it?                                                                                                                                                  | Comm            | QX-010          |
| QX-021                       | 3.2.1.1  | Do the costs include the cost of migrating to a new helpdesk, e.g. Training of new                                                                                                                                                                                                                                      | Prog            |                 |

| REF    | Source                   | Description                                                                                                                                                                                                                                                                                                                                                                                                                                  | Question from | Cross reference |
|--------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------|
|        |                          | personnel?                                                                                                                                                                                                                                                                                                                                                                                                                                   |               |                 |
| QX-022 | 3.2.1.2                  | Please confirm that the baseline to which the 120% limit would apply is a new baseline as at signature of the new contract, rather than the existing 2002 baseline..                                                                                                                                                                                                                                                                         | Comm          | QX-010          |
| QX-023 | 3.2.1.2                  | How is better service availability /better MBTFs achieved on same kit?                                                                                                                                                                                                                                                                                                                                                                       | Service       | QX-010          |
| QX-024 | 3.2.1.2                  | The increasing failure rate is quoted as 5%. The most recent figures from PO Ltd work the figure out to be 9%. Why the difference?                                                                                                                                                                                                                                                                                                           | Service       | QX-010          |
| QX-025 | 3.2.1.2                  | FS to clarify what the line " <b>From contract signature to the application rollout the MTBF increase will be absorbed in the contract charges up to 120% of the baseline</b> " means.<br>Is this worked out on a percentage being reduced yearly from the baseline agreed in 2004?                                                                                                                                                          | Service       | QX-010          |
| QX-026 | 3.2.1.2                  | FS to clarify what the line " <b>The MTBF will be re-baselined after the rollout of the application. The increase after that is capped at 150% with the contract charge with any further increase at Post Office risk</b> " means. Is this 150% from original baseline or re-baseline?                                                                                                                                                       | Service       | QX-010          |
| QX-027 | 3.2.1.2                  | What are the Engineering Service charges for any call outs over and above MTBF baselines?                                                                                                                                                                                                                                                                                                                                                    | Service       | QX-010          |
| QX-028 | <del>3.2.1.2</del> 3.4.2 | <b>Fujitsu have absorbed the risk of this degradation to service up to 50% from the roll out of the application.</b> How does this relate to comment in 3.2.1.2 and 150% comment on MTBFs. Comment above                                                                                                                                                                                                                                     | Service       | QX-010          |
| QX-029 | <del>3.2.1.2</del> 3.5   | What happens if time to fix rates fall outside 79%/21% split. Eg Will we have to pay extra for more urgent 4 hour fixes                                                                                                                                                                                                                                                                                                                      | Service       | QX-010          |
| QX-030 | 3.2.1.2                  | What is the impact that online call logging, and tech couriers has on the costs?                                                                                                                                                                                                                                                                                                                                                             | Tech/DA       | QX-010          |
| QX-031 | 3.2.1.2                  | If Fujitsu are planning to visit every branch to replace PC battery can we utilise this visit for installation of any equipment we may have (eg counter refresh).?                                                                                                                                                                                                                                                                           | Service       | QX-010          |
| QX-032 | 3.2.1.2                  | Installation of a router device will require modifications to existing LAN and Gateway. If this is done during working hours as intimated then the branch will be off line and there will be some disruption around Gateway position. A guesstimate of install time (and down time) would be 1 hour. The assumption are that the modifications are plug and play and the Gateway will need a reboot. What are the expected install times and | Service       |                 |

| REF    | Source                   | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Question from  | Cross reference |
|--------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
|        |                          | down-times?                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                |                 |
| QX-033 | 3.2.1.3                  | Please provide details of the "greater internal resilience" being provided in the live data centre.                                                                                                                                                                                                                                                                                                                                                                        | Comm + Tech    |                 |
| QX-034 | 3.2.1.3                  | FS need to clarify what the flick back impact would be on any testing. Also how frequently -would 'wobbles' in main data centre cause a sudden halt of any test activity?                                                                                                                                                                                                                                                                                                  | Tech/DA        |                 |
| QX-035 | 3.2.1.3                  | 'FS has assumed that the low rate of change with the application from 2010.....' – this phrase appears under several sections e.g. Data Centre, Systems Management Services, Third and Fourth line support, SI Support etc indicating reduction in cost/resource – what is this based on and does this apply to changes made in reference data (including "AP/ADC" type changes?<br>What is deemed 'low' and what are the implications of the rate of change being higher? | All areas      |                 |
| QX-036 | 3.2.1.4                  | What is the "Fujitsu standard" IP Stream ASL service? Is this equivalent to any generally recognised standard?                                                                                                                                                                                                                                                                                                                                                             | Comm           | QX-010          |
| QX-037 | 3.2.1.4                  | 3.2.1.4 of the proposal states that assumed coverage for the wireless backup service is 100%. Assumption 3.11 states it is expected to exceed 95%. Which is it?                                                                                                                                                                                                                                                                                                            | Tech/DA        |                 |
| QX038  | 3.2.1.4                  | Why the delay in dropping the contention rates given that Horizon was architected to run over PSTN/ISDN?                                                                                                                                                                                                                                                                                                                                                                   | Tech/DA        |                 |
| QX-039 | 3.2.1.5                  | Ref data may change more though as more ADC products hit the frontline – what will be the impact of this?                                                                                                                                                                                                                                                                                                                                                                  | Tech/DA        |                 |
| QX-040 | 3.2.1.5                  | Last sentence incomplete?                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Comm           |                 |
| QX-041 | 3.2.1.7                  | OBC – does the use of change control for OBC work other than the anticipate level of force majeure closures mean that each job other than these would have to be individually costed and would now need to be done via change control? What are the impacts of this and associated costs?                                                                                                                                                                                  | Service + Comm |                 |
| QX-042 | 3.3.2                    | Penuultimate para on page, "funding on a case by case basis" - What framework for charging would be applicable?                                                                                                                                                                                                                                                                                                                                                            | Comm           |                 |
| QX-043 | <del>3.4.2</del> 3.4.2.1 | MTBF degradation is mentioned. What are the costs of additional engineering calls. Does the 50% relate to a threshold for all pieces of equipment or individual items. Do                                                                                                                                                                                                                                                                                                  | Service        | QX-010          |

| REF    | Source                 | Description                                                                                                                                                                                                                                            | Question from  | Cross reference |
|--------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
|        |                        | we just pay for items over 50% or all items once one or all pieces go over 50%                                                                                                                                                                         |                |                 |
| QX-044 | 3.4.2.1                | How do the 5% and 50% relate to one another – is Fujitsu taking the 50% risk from the start of only 5% per annum?                                                                                                                                      | Comm.          |                 |
| QX-045 | <del>3.4.2.1</del> 3.5 | Branch MTBF Graph Three – With MTBFs deteriorating how can MTBF improve due to perception. MTBF is about equipment breaking and being fixed and this will get worse.                                                                                   | Service        | QX-010          |
| QX-046 | 3.4.2.1                | Fujitsu mention analysing failures by using “sense and respond”. The description of the strategy is understood at Appendix A. Can Fujitsu provide evidence of Implementation and Real benefits in this new approach                                    | Service        | QX-010          |
| QX-047 | 3.4.3                  | Any new equipment will have to be agreed with Post Office Ltd and go through all existing authorisation processes eg Health and Safety Testing, EMC testing if required, Ergonomic Testing (Please comment)                                            | Service        | QX-010          |
| QX-048 | <del>3.4.3</del> 6.2.2 | The proposal has Operational Services Savings for Ithaca over 8 years as £8.8M over 8 years. The Counter Printer proposal has £12.6M over 10 years. Why the difference when average yearly costs are £1.1 in proposal                                  | Service        | QX-010          |
| QX-049 | 3.5                    | First bullet point – does this mean that the costs for the 2000 ISDN backup lines and the 500 GSM phones have been excluded?                                                                                                                           | Comm           |                 |
| QX-050 | 3.5                    | Please provide supporting information for the 3 charts.                                                                                                                                                                                                | Service + Comm | QX-010          |
| QX-051 | 3.5                    | Is there any supporting data that predicts that the hard disks last until 2015?                                                                                                                                                                        | Tech/DA        | QX-010          |
| QX-052 | 3.6                    | Please provide pricing for each proposed option                                                                                                                                                                                                        | Programm       |                 |
| QX-053 | 4.4.1                  | The UI not defined –What are the impacts?                                                                                                                                                                                                              | Tech           |                 |
| QX-054 | 4.4.1                  | Please explain what is meant by “specifically enhanced with patterns from the Fujitsu GlobalSTORE retail framework?”                                                                                                                                   | Comm           |                 |
| QX-055 | 4.4.1                  | What is the relationship of the style sheet definitions to the Use Cases?                                                                                                                                                                              | Comm           |                 |
| QX-056 | 4.4.2.1                | How will clients be impacted by migration?                                                                                                                                                                                                             | Programm       |                 |
| QX-057 | <del>4.5.1</del> 3.4.3 | How is the PC Bios battery calculation estimated. Can Fujitsu guarantee that we won't have mass failure before then? If we do who owns the risk? Are there any monitoring plans in place to assess failures to see if we are approaching problems now? | Service        | QX-010          |

| REF    | Source | Description                                                                                                                                                                                                    | Question from   | Cross reference |
|--------|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| QX-058 | 4.6    | On what basis have Fujitsu made their "best knowledge" assessment?                                                                                                                                             | Comm            |                 |
| QX-059 | 4.10.2 | "some reference data may need to be produced in multiple formats" – this presumably includes Mails/Postal Services reference data. Is there any other reference data to which this will apply?                 | Comm            |                 |
| QX-060 | 4.10.3 | How will data be migrated on the terminals? What is the anticipated impact on the office?                                                                                                                      | Tech/DA         |                 |
| QX-061 | 5.1    | How does Fujitsu envisage that the trade-offs between business capabilities and development cost will be managed at the detailed level?                                                                        | Comm            |                 |
| QX-062 | 5.1    | Last bullet on page - "appropriate" – please clarify.                                                                                                                                                          | Comm            | QX-001          |
| QX-063 | 5.2    | How much contingency is 'included within this plan'?                                                                                                                                                           | Programm        |                 |
| QX-064 | 5.2.1  | Please provide further details of how you propose that Acceptance would be managed.                                                                                                                            | Comm + Programm |                 |
| QX-065 | 5.2.1  | Does the need to restate all non-functional requirements include service levels?                                                                                                                               | Comm            |                 |
| QX-066 | 5.2.1  | What tasks are planned between now and Jan 2006?                                                                                                                                                               | Programm        |                 |
| QX-067 | 5.2.2  | Who decides when it is "necessary" for FS to seek clarifications. Are FS prepared to take the risk of re-work being needed because necessary clarifications were not obtained?                                 | Comm            |                 |
| QX-068 | 5.2.2  | What system documentation will be provided to support future developments.                                                                                                                                     | Programm        |                 |
| QX-069 | 5.2.3  | What is the timescale/Dependency on agreeing Acceptance Criteria?                                                                                                                                              | Programm        |                 |
| QX-070 | 5.2.5  | Would both App & OS upgrade be soft delivered?                                                                                                                                                                 | Tech/DA         |                 |
| QX-071 | 6      | The charges are "estimated". When will Fujitsu be able to commit to costs, and on what basis – i.e. which costs will be fixed price, which T&M, what constraints (such as soft cap) will apply to the T&M?     | Comm            |                 |
| QX-072 | 6.1    | Please confirm the accuracy of the comparison with the June costs (attached).<br><br>"Comparison of June & September Propos | Comm            |                 |
| QX-073 | 6.1    | Please provide transparency of Operational Services and elements that make up the totals.                                                                                                                      | Service         | QX-010          |

| REF    | Source              | Description                                                                                                                                                                                                         | Question from | Cross reference |
|--------|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------|
| QX-074 | 6.2.2               | The proposal has Capital Costs for new printer in Year8 as £9.5M. The Counter Printer proposal has £9.3M spend in 2006. As hardware prices generally tend to fall would this cost not reduce?                       | Service       | QX-010          |
| QX-075 | 6.2.2               | Do we have a list of the retained components?                                                                                                                                                                       | Service       |                 |
| QX-076 | 6.2.3               | Please provide the mapping from current grades to the new grades.                                                                                                                                                   | Comm          |                 |
| QX-077 | 6.2.3               | Please explain the basis of cost indexation for staff originating outside the UK? (We assume that this means the country in which the staff are currently based, not their country of birth.)                       | Comm          |                 |
| QX-078 | 6.2.3               | Please confirm the comparison of discounted and undiscounted rates (attached).<br><br>"HNG-X Comparison of day rates v2.xls"       | Comm          |                 |
| QX-079 | 6.3                 | Please confirm our calculation of the effect of the cost variability. (attached)<br><br>"Analysis of savings returned to PO in HN" | Comm          |                 |
| QX-080 | 6.3                 | What basis is envisaged for deciding whether or not suitable new business requirements are available?                                                                                                               | Comm          |                 |
| QX-081 | 6.3                 | Would development costs count towards the incremental business?                                                                                                                                                     | Comm          |                 |
| QX-082 | App A               | Please provide details of Gartner's modification of their definition around customer support Service Desks.                                                                                                         | Comm          |                 |
|        | <b>Assumptions:</b> |                                                                                                                                                                                                                     |               |                 |
| QX-083 | 1.2                 | Does "test" here mean "Acceptance Method"?                                                                                                                                                                          | Comm          |                 |
| QX-084 | 2.4                 | When would Fujitsu expect to invoice for this re-used work?                                                                                                                                                         | Comm          |                 |
| QX-085 | 3.4                 | Please explain the relationship between the 11,000 and 13,000 call number limits.                                                                                                                                   | Comm          |                 |
| QX-086 | 3.16                | What is the basis of this assumption, and who bears the risk of it proving wrong?                                                                                                                                   | Comm          |                 |
| QX-087 | 3.18                | Please explain how the branch hardware estate would be managed to remove "rogue" devices and so manage the MTBF downwards, in the absence of this detailed config.                                                  | Comm          |                 |

| REF                                                            | Source  | Description                                                                                                                                                                                   | Question from | Cross reference |
|----------------------------------------------------------------|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------|
|                                                                |         | management data.                                                                                                                                                                              |               |                 |
| QX-088                                                         | 4.3     | Would distribution of the training software builds be by CD?                                                                                                                                  | Comm          |                 |
| QX-089                                                         | 7.1     | Please explain how this assumption relates to the proposed use of UML models as the basis for acceptance in the proposal.                                                                     | Comm          |                 |
| QX-090                                                         | 7.2     | But what are the financial consequences (for PO) if this statement not true?                                                                                                                  | Comm          |                 |
| QX-091                                                         | 7.6     | Please explain how long the "migration period" and the "longer period of time" are expected to be.                                                                                            | Comm          |                 |
| QX-092                                                         | 7.7     | Are there any other Clients to which this would apply?                                                                                                                                        | Comm          |                 |
| QX-093                                                         | 7.10    | Does this mean that the facilities being provided by the BNR project (ISDN backup lines and GSM mobiles) would no longer be available/applicable to branches that had had a router installed? | Comm          |                 |
| QX-094                                                         | 7.12    | Is the bulleted list exhaustive?                                                                                                                                                              | Comm          |                 |
| QX-095                                                         | 7.13    | What budget has Fujitsu allowed for the development of the alternative to bubble help?                                                                                                        | Comm          |                 |
| QX-096                                                         | 7.15    | Would Fujitsu expect to have to meet a service level target for deployment of reference data received from PO at the data centre?                                                             | Comm          |                 |
| QX-097                                                         | 7.17    | Ref to "at the same time" - what does this mean? Same hour/day/other period of duration of migration (TBD)?                                                                                   | Comm          |                 |
| QX-098                                                         | 7.22    | Does this statement apply at branch level or at global level or both?                                                                                                                         | Comm          |                 |
| QX-099                                                         | 7.23    | Are there any other Clients to which this applies?                                                                                                                                            | Comm          |                 |
| QX-100                                                         | 7.26    | How does this reconcile with the need to have different reference data for Post Services than currently for Mails?                                                                            | Comm          |                 |
| <b>C. ADDITIONAL QUESTIONS ADDED 19<sup>th</sup> SEPTEMBER</b> |         |                                                                                                                                                                                               |               |                 |
| QX-101                                                         | 3.2     | Please provide a detailed description of what has changed and what remains against the current Operational Services and which of the existing Service levels will be retained.                | Comm          |                 |
| QX-102                                                         | 3.2     | Table at 3.2 lists a 'Counter HW Retention' service what is this?                                                                                                                             | Comm          |                 |
| QX-103                                                         | 3.2.1.2 | If Post Office choose to introduce new hardware i.e. counter printers, how will the                                                                                                           | Comm          |                 |

| REF                                                                     | Source  | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Question from | Cross reference |
|-------------------------------------------------------------------------|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------|
|                                                                         |         | corresponding savings on Mobile Engineering Service be calculated?                                                                                                                                                                                                                                                                                                                                                                                                              |               |                 |
| QX-104                                                                  | 3.2.1.2 | If Post Office wish to accept the risk of Hardware degradation, can FS provide a service cost for this please?                                                                                                                                                                                                                                                                                                                                                                  | Comm          |                 |
| QX-105                                                                  | 3.2.1.2 | Can FS please provide their assumptions on how they propose to conduct PAT testing. Is this going to be carried out during normal working hours, if yes what is the impact on the counter?                                                                                                                                                                                                                                                                                      | Comm          |                 |
| QX-106                                                                  | 3.2.1.4 | In the event of large scale ADSL failures how many Counters will the wireless network sustain and what will the transaction rate be?                                                                                                                                                                                                                                                                                                                                            | Tech/DA       |                 |
| QX-107                                                                  | 3.2.1.7 | There is limited mention of Postal Services reference data. This is a sizable chunk of the reference data population, so will this be implemented as per the CD? If not, has it been costed in to HNG-X?                                                                                                                                                                                                                                                                        | Tech/DA       |                 |
| <b>D. ADDITIONAL SECURITY QUESTIONS ADDED 23<sup>rd</sup> SEPTEMBER</b> |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |               |                 |
| QX-108                                                                  | 4.6     | <p>How does the proposed application level security model work? In particular:</p> <ul style="list-style-type: none"> <li>(i) How does it interact with services that might be supplied by InterStage?</li> <li>(ii) How does it manage the transmission security supplied by VPNs?</li> <li>(iii) What standards will it comply with?</li> <li>(iv) How will this work at the Data Centres?</li> </ul> <p>Are there any CESG-approved application level security packages?</p> | POL Security  |                 |
| QX-109                                                                  | 3.4     | POL security are concerned that the retention of 486-architecture counter terminals will not allow XP to be run. With the proposal of the removal of Branch firewall structure in the HNG proposal, it was originally proposed to rely on the                                                                                                                                                                                                                                   | POL Security  |                 |

| REF    | Source | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Question from | Cross reference |
|--------|--------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------|
|        |        | individual XP firewalls on Counter terminals to protect them. The proposed terminal retention strategy would put Branch equipment protection at risk. How do Fujitsu Services plan to address this risk?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               |                 |
| QX-110 | 4.6    | POL need Fujitsu Services to supply details of the function of the end to end security model at all levels. In particular:<br><br>(i) How do Fujitsu Services plan to provide equivalent transmission security to the HNG model of IPSec VPNs?<br>(ii) How does the proposed model fit the Royal Mail Group design criteria of a centralised data model with deperimeterised, on-demand security?<br>(iii) How will the proposed model comply with ISO17799?<br>(iv) How will data be protected at Data Centres? What is the proposed security infrastructure architecture (firewall/DMZ, network topology etc.)? What level of security will it provide?<br>(v) How will the proposed model support peripheral third-party developed Web-based solutions? | POL Security  |                 |
| QX-111 | 4.6    | Reduction of disk level encryption seems nugatory in view of fact that model for HNG was going to be migrated from store-and forward to centralised data storage. How do FS plan to implement this and what benefit will it give POL? We cannot accept any reduction in disk encryption standards at the Data Centre.                                                                                                                                                                                                                                                                                                                                                                                                                                      | POL Security  |                 |
| QX-112 | 4.6    | <i>"To the best knowledge of Fujitsu, the proposed solution is fully compliant with legal and commercial requirements that Post Office must currently meet."</i> This refers to a retail based system, but is not an acceptable statement as it does not give POL confidence that FS are aware of all the standards they must comply with. Which requirements are Fujitsu planning to comply with? How does FS plan to be compliant with them? All such compliance requirements must be discussed with POL/RMG from the outset of development (see Comment 1).                                                                                                                                                                                             | POL Security  |                 |
| QX-113 | 4.6    | Does the retail based security model referred to in this paragraph propose to support, and comply with, the appropriate Financial trading standards e.g. PCI? If so, which ones and how?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | POL Security  |                 |





Mike J Hannon  
16/09/2005 13:45

To: Keith K Baines [GRO]  
cc:  
Subject: Proposal Questions

Keith

Below is the short list of questions sent to John.

I've highlighted those I think are relevant to your Commercial meeting, with Colin, in blue.

Any problems give me a shout.

Mike

----- Forwarded by Mike J Hannon/[GRO] on 16/09/2005 13:41 -----

Mike J Hannon  
16/09/2005 13:02

To: JOHN WHEELER [GRO]  
cc:  
Subject: Proposal Questions

John

Some additional questions for FS. I don't think these questions have previously been covered but please take out those you think have.

- 3.2 Please provide a detailed description of what has changed and what remains against the current Operational Services and which of the existing Service levels will be retained.
- 3.2 Table at 3.2 lists a 'Counter HW Retention' service what is this?
- 3.2.1 FS Have stated in a number of the section in 3.2 a 'low rate of Change' has been assumed, how has this impacted the Operational Service Charge? There seems to be no significant cost reduction post 2010.
- 3.2.1.2 If Post Office choose to introduce new hardware i.e. counter printers, how will the corresponding savings on Mobile Engineering Service be calculated?
- 3.2.1.2 If Post Office wish to accept the risk of Hardware degradation, can FS provide a service cost for this please?
- 3.2.1.2 Can FS please provide their assumptions on how they propose to conduct PAT testing. Is this going to be carried out during normal working hours, if yes what is the impact on the counter?
- 3.2.1.7 Can FS provide clarification of what the mean by 'Fujitsu has assumed a low rate of change from 2010'? If change is at a highest rate than 'low' what is the impact against each of the Services?

Regards

Mike



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# Horizon Service Partnership Proposal Response to Clarification Questions

v1.1

20<sup>th</sup> September 2005



**Doing Our Bit to Help Make  
the Big Things Happen**

 **Horizon Service Partnership  
Proposal**  
Response to Clarification  
Questions



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Horizon Service Partnership  
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## 1 QUESTIONS ARISING FROM THE PRESENTATION

QX-01 *Please provide expected/planned mix of offshore, onshore, and near-shore development*

The development programme for HNG-X is split approximately 55% on the application and 45% on infrastructure. It is currently envisaged that the infrastructure activities will be delivered in the UK due to the proximity with data centre and network service providers. 33% (19% of the overall effort) of the application work will be delivered by offshore staff of which 69% will be working genuinely offshore.

QX-02 *Confirm how pre-paid has been treated on comparison graph under 6.1*

The July Proposal line includes prepaid for the full life; all other lines include prepaid for the first 5 years and not years 2011 to 2015 inclusive. Prepaid-included.

QX-03 *Why is SI support higher than previous proposal after 2012 (see spreadsheet provided under QX-72 below)?*

The SI Support element of the HNG "X" pricing is correct – and takes account of the shape of the overall commercial package offered to Post Office. This question is to be responded to at a later date

QX-04 *This reflects re-pricing within the overall proposition. FS to walk POL through the architectural rationale and "journey" to the proposed architecture. This will help to explain why it is the most appropriate architecture for POL (POL are concerned that we have been presented with a fait accompli). Specific queries concern movement to J2EE and larger footprint for Interstage.*

The meeting to walk through the architecture and to address outstanding architectural issues has been set-up for Tuesday 20<sup>th</sup> September.

QX-05 *Which elements of the proposed architecture drive which cost savings?*

The architecture is proposed as a complete package. Details of cost drivers will be discussed during the services and price transparency workshops, currently scheduled for the week commencing 19<sup>th</sup> September.



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QX-06 *What is the likely size and composition of the additional strive (not committed)?*

The size of the target Strive savings reflects in Fujitsu's presentation of 14 Sept 05 are shown in the table below:

| EM                                       | Y 12 | Y 13 | Y 14 | Y 15 |
|------------------------------------------|------|------|------|------|
| Strive Target Savings (with RPI and VAT) | £3.0 | £5.2 | £6.9 | £8.8 |
| Strive Target Savings (excl RPI and VAT) | £2.2 | £3.8 | £4.9 | £6.2 |

For the avoidance of doubt these figures represent a notional target savings over Fujitsu's offered charges for HNG "X", and do not reflect any committed savings. This question is to be responded to at a later date

QX-07 *Joint discussions to be undertaken on the variability of pricing with network size - FS's interpretation is more bullish than POL's*

Whilst POL's view is an arithmetic interpretation, the FS view is that the factored reinvestment should be viewed in terms of probability, i.e. what is the probability that new business requirements will not materialise? Fujitsu's view is that sufficient incremental business will be generated in joint working with POL, in order to qualify for a 100% return of cost savings. This may be generated through new business requirements or other IT projects targeted at reducing business cost to POL.

This topic is planned to be discussed further during the joint meeting on 20<sup>th</sup> September.

QX-08 *What are the differences from the proposed solution under the June proposal? Note that a check is planned against the HNG compliance matrix which will help to provide this at a detailed level.*

Main differences include:

- Test/DR Model
- Data-driven Counter Applications
- More use of SOA models
- Lightweight use of SOA technology
- Reuse of backend Databases
- New Security model

Note: HNG-X builds on HNG and the leverage will emerge from the review of the compliance matrix

Fujitsu has started work on updating the HNG compliance matrix with a view from the HNG-X perspective. It is hoped that this will be available during the w/c 19<sup>th</sup> September.



**Horizon Service Partnership  
Proposal**  
Response to Clarification  
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**QX-09** *Ways of working - concern around "black-boxing" of design. It is not FS's intention for POL to have no influence on design – but FS affirmed that if they are to take accountability for SLAs, FS need to own the detailed design. The detail of the overall ways of working are for further discussion, including programme governance. (Initial meeting on Fri 16 Sep).*

An architectural meeting is planned to take place on 20<sup>th</sup> September, between Fujitsu and Clive Read of POL, to discuss this topic further.

Overall 'Ways of Working' is the subject of continuing discussions between Fujitsu and Dave Smith/Ian O'Driscoll of POL, with the next meeting planned to take place on 20<sup>th</sup> September.

**QX-10** *Counter availability/MTBF - FS will work with POL to drill into detailed data and assumptions so that POL can be reassured over impacts. This will include specific concerns around availability at outlying / single counter offices (which may differ significantly from the average figures).*

Meeting to discuss this issue is planned to take place between Fujitsu and POL on 21<sup>st</sup> September.



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## 2 QUESTIONS SPECIFIC TO THE PROPOSAL

- QX-11 *Section 1.2*  
*In the table, what is the significance of "lowest infrastructure support costs" as contrasted with "lower application support costs" and "lower operating cost base"?*

There is no distinction between the terms 'Lowest' and 'lower' in this context. However, Fujitsu will strive to achieve the lowest possible costs with regard to infrastructure support.

- QX-12 *Section 1.2 (p7)*  
*2nd sub-bullet under "Service Partnership – Committed cost reductions over the life of the contract" - "Underwritten productivity improvements from FS over life of the contract"... where are these stated/detailed, and are they warranted?*

The Operating and SI Support costs reflect Fujitsu taking a level of risk on productivity improvements in the costs, to deliver the service at the prices shown.

- QX-13 *Section 2.1*  
*In the diagram, is there any significance to the order of the items listed under "Management" – i.e. are the ones near the top meant to have more POL involvement and the ones at the bottom more FS involvement?*

No implied significance in the order used. The list is also not intended to be exhaustive, and merely presented to illustrate the types of activities which would/are being delivered between Post Office and Fujitsu.

- QX-14 *Section 2.3*  
*In the diagram and the following text – are the committed cost reductions included in the prices in the commercial section and spreadsheet?*

The diagram identifies a line plotted as "Offered Charges". This corresponds to the charges detailed in Fujitsu's proposal Commercial Section and attached spreadsheet. As a consequence this line includes the effect of target productivity improvements Fujitsu will need to realise over time. However, for the avoidance of doubt the charges to Post Office will be based on the "Offered Charges" line, whether the target Productivity Savings are realised or not.

- QX-15 *Section 2.3*  
*In the diagram and the following text – have FS a view of the likely amount of further savings that may be possible – the diagram suggests that the additional opportunity*



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*is less than that already committed; is this intended? Please explain what is meant by "NB cost represents Business Cost not just IT costs".*

The diagram presented in the proposal was used to illustrate the principle of Strive, and its relationship to Fujitsu's charges, and productivity saving targets. Beyond this, the diagram holds no other purpose, as it was not based on any actual or forecast cost data. An alternative representation of this diagram was presented to Post Office at a meeting on 14<sup>th</sup> September. This used the actual pricing data underpinning Fujitsu's proposal (i.e. Offered Charges and Target productivity savings).

The adjacent comment which mentions "business cost" is intended to clarify that Fujitsu would expect any Strive initiatives to be focused on reducing costs as a whole to Post Office's business, and not just IT costs (or even just Fujitsu's element). Measuring success purely on the basis of reduced IT costs can prove to be a false economy as often hidden, indirect cost can arise elsewhere in business operations (see Gartner's work on "The Hidden Cost of Computing").

It is also well documented in the industry that in order to save money, you may need to invest money. This may lead to IT costs increasing in the short term, in order to liberate greater operational (business cost) savings elsewhere.

Fujitsu propose to work with Post Office to achieve the optimum balance of reducing IT costs (on a like for like basis over time), whilst ensuring that business costs as a whole are also reduced.

**QX-16**    *Section 2.3*  
*In benchmarking – what is the definition of "market norms"?*

A definition of "market norms" for the purpose of any Benchmarking provision under the new contract will be agreed with Post Office. However the principle of its execution will be to provide Post Office with the ability to realise a cost for specific services from Fujitsu at a similar price to which Post Office could reasonably expect to achieve directly elsewhere (based on comparable scope, quality, etc).

**QX-17**    *Section 2.3*  
*In the committed cost reduction – which cost areas benefit from the 5% pa efficiency improvement?*

The benefits of this efficiency improvement can be found right across the ongoing charges.



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- QX-18 *Section 2.5*  
*In what circumstances would bought in services be commercially confidential so as to prevent transparency? Does this apply to any of the existing supply contracts that Fujitsu intends to carry forward into the new service?*

Commercial confidentiality will play a role where third party contracts prevent disclosure. This currently applies to the contracts with Energis Communications and Hypercom.

- QX-19 *Section 3*  
*Which of the proposed changes result from the new application and which from the new infrastructure architecture?*

The new application is a pre-requisite of the new infrastructure architecture. The application allows Fujitsu to achieve lower service cost, and the support of the revised architecture provides further opportunities for cost savings.

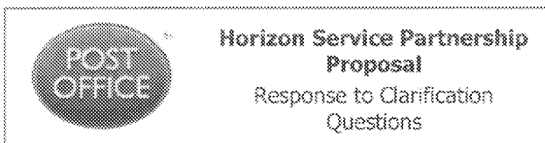
Details of cost drivers will be discussed during the services and price transparency work shops, to be held in the week of September 19<sup>th</sup>.

- QX-20 *Section 3.2.1.1*  
*What is the supporting data behind the prediction of 10% on line call logging? What are the penalties for not meeting the target? What are the rewards for beating it?*

The 10% prediction is based on Fujitsu's experience across a number of helpdesks in which it has implemented this technology, including its own internal helpdesk. The tendency is for the more technical organisations to over-achieve this prediction due to the willingness of the users to accept technology over human interfaces. For an organisation with a user population like the Post Office, 10% is achievable if the facility saves time or enables the user to be more efficient than going through the process of raising a call via a telephone. This is especially true of progress chasing calls.

Fujitsu will seek to make additional charges if Post Office do not commit to the principle of electronic call logging.

If Post Office is prepared to commit to a higher level of electronic call logging than 20%, Fujitsu would consider its charging structure. The percentage can be varied during the term of the contract as the user population changes and gains experience. However this must be a forward commitment, as opposed to being subject to a retrospective review. If more than 10% is to be achieved, this will require a proactive training program rather than a simple publication of the facility and word of mouth recommendation.



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QX-21 *Section 3.2.1.1*  
*Do the costs include the cost of migrating to a new helpdesk e.g. training of new personnel?*

Yes. Fujitsu would look to retain the helpdesk staff after the transfer.

QX-22 *Section 3.2.1.2*  
*Please confirm that the baseline to which the 120% limit would apply is a new baseline as at signature of the new contract, rather than the existing 2002 baseline.*

Yes

QX-23 *Section 3.2.1.2*  
*How is better service availability / better MBTFs achieved on the same kit?*

The service availability is a product of the central and branch outages and failures. There is an improvement for HNG-X in the availability of the central services, the network and the application in the counter. This gives an improvement over the same time period for Horizon.

QX-24 *Section 3.2.1.2*  
*The increasing failure rate is quoted as 5%. The most recent figures from PO Ltd work the figure out to be 9%. Why the difference?*

The 5% figure is a more reasonable, long term sustainable figure. This number has been validated with Fujitsu technology and engineering experts and its equipment repairers and suppliers. Within the overall term of the contract, the 5% will vary but Fujitsu believe that it will average at 5% over the contract until 2015. Fujitsu has taken the risk of the degradation into its proposal to provide Fujitsu with the motivation to, where possible, manage the calls below this prediction.

QX-25 *Section 3.2.1.2*  
*FS to clarify what the line "From contract signature to the application rollout the MTBF increase will be absorbed in the contract charges up to 120% of the baseline" means? Is this worked out on a percentage being reduced yearly from the baseline agreed in 2004?*

Fujitsu will bear the risk of up to 120% degradation of the MTBFs from the baseline at contract signature, until the application is rolled out.

The rate of degradation is assumed to be 5% per annum.



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- QX-26 Section 3.2.1.2  
FS to clarify what the line "The MTBF will be re-baselined after the rollout of the application. The increase after that is capped at 150% with the contract charge with any further increase at Post Office risk" means. Is this 150% from original baseline or re-baseline?

The statement should read "The MTBF will be re-baselined after the rollout of the application. The **decrease** after that is capped at 150% with the contract charge with any further **decreases** at Post Office risk". The 150% is from the re-baselined position.

- QX-27 Section 3.2.1.2  
What are the Engineering Service charges for any call outs over and above MTBF baselines?

These will be at Fujitsu's price per call plus repair charge at the rates applicable at the time. Based on HNG "X" steady state, in today's terms Fujitsu charges would be circa £160 per call (exclusive of VAT and RPI).TBC

- QX-28 Section 3.4.2  
Fujitsu have absorbed the risk of this degradation to service up to 50% from the roll out of the application. How does this relate to comment in 3.2.1.2 and 150% comment on MTBFs. Comment above

The 50% is the reduction in the MTBF contained with the 150% degradation.

- QX-29 Section 3.5  
What happens if time to fix rates fall outside 79%/21% split. E.g. will we have to pay extra for more urgent 4 hour fixes

Fujitsu believes the proposed split is reasonable, and will be achieved through the use of default call severities. The risk of greater numbers of calls in any severity is Fujitsu's, given the default call time is taken. Any departure from these will be a result of changing the defaults, which will lead to chargeable activity to POL.

- QX-30 Section 3.2.1.2  
What is the impact that online call logging, and tech couriers has on the costs?

This is a complete package. Details of cost drives will be discussed during the services and price transparency work shops



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- QX-31 *Section 3.2.1.2*  
*If Fujitsu are planning to visit every branch to replace PC battery can we utilise this visit for installation of any equipment we may have (eg counter refresh)?*

No. The battery replacements will take place during normal engineering visits and not as (part of) a scheduled roll out.

- QX-32 *Section 3.2.1.2*  
*Installation of a router device will require modifications to existing LAN and Gateway. If this is done during working hours as intimated then the branch will be off line and there will be some disruption around Gateway position. A guesstimate of install time (and down time) would be 1 hour. The assumption is that the modifications are 'plug and play' and the Gateway will need a reboot. What are the expected install times and down-times?*

The router will be installed during a normal engineering visit. Therefore it is likely that the Post Master will already be experiencing system problems, and may require an additional reboot. Fujitsu therefore expect the incremental impact of installing the router to be negligible.

- QX-33 *Section 3.2.1.3*  
*Please provide details of the "greater internal resilience" being provided in the live data centre.*

The current resilience model relies on the existence of the second live data centre. In the model proposed the first line of resilience will be within the live data centre. The second data centre will only be invoked in the event of a complete (and in specific cases, partial) loss of the live data centre.

This subject is expected to be covered as part of the workshop planned for 21<sup>st</sup> September.

- QX-34 *Section 3.2.1.3*  
*FS need to clarify what the flick back impact would be on any testing. Also how frequently -would 'wobbles' in main data centre cause a sudden halt of any test activity?*

Fujitsu would expect the occurrence of fail over to the DR site to be very rare, given the use of local resilience in the live data centre, as discussed above. In the event of fail over to DR, the flick back time associated with the recovering the test environment will be dependant upon the stage at which the interrupted testing cycle had been at.

NB. Fujitsu would expect that 'Wobbles' such as that experienced on 20<sup>th</sup> December 2004, would be managed with the resilience within the main data centre.


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- QX-35 Section 3.2.1.3  
*'FS has assumed that the low rate of change with the application from 2010.....' – this phrase appears under several sections e.g. Data Centre, Systems Management Services, Third and Fourth line support, SI Support etc indicating reduction in cost/resource – what is this based on and does this apply to changes made in reference data (including "AP/ADC" type changes? What is deemed 'low' and what are the implications of the rate of change being higher?*

The statement does not apply to change implemented via AP/ADC.

The low rate of change has been assumed based on comments from POL senior management and would only cover maintenance changes due to bug fixes and service pack releases from the software and hardware manufactures. All changes due to incremental business requirements are excluded and would be subject to separate business cases and project spend.

- QX-36 Section 3.2.1.4  
*What is the "Fujitsu standard" IP Stream ADSL service? Is this equivalent to any generally recognised standard?*

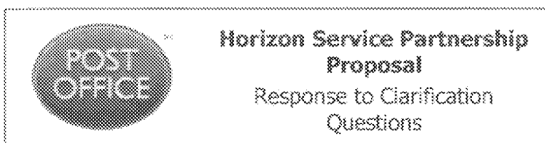
The Fujitsu standard IP stream ADSL service uses commercially available IP stream links, purchased from BT Wholesale, and is supplied to a number of Fujitsu's customers. This is different to the current Datastream ADSL service supplied by Energis.

- QX-37 Section 3.2.1.4  
*States that assumed coverage for the wireless backup service is 100%. Assumption 3.11 states it is expected to exceed 95%. Which is it?*

Fujitsu are proposing to roll out the router with wireless connectivity to all branches, giving the capability to 100% of branches.

- QX-38 Section 3.2.1.4  
*Why the delay in dropping the contention rates given that Horizon was architected to run over PSTN/ISDN?*

Fujitsu does not recommend the use of IP Stream Home to support larger Post Office branches whilst running the current application. Once rolled out, the new application will make this a practical option for all Post Office branches.



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QX-39 Section 3.2.1.5  
*Ref data may change more though as more ADC products hit the frontline – what will be the impact of this?*

Fujitsu does not currently believe that this would present a significant problem.

QX-40 Section 3.2.1.5  
*Is the last sentence incomplete?*

Yes. The last sentence should read: "Fujitsu has assumed a low rate of change with the application from 2010."

QX-41 Section 3.2.1.7  
*OBC – does the use of change control for OBC work other than the anticipate level of force majeure closures mean that each job other than these would have to be individually costed and would now need to be done via change control? What are the impacts of this and associated costs?*

Yes, although standard jobs would be priced from a catalogue. The intention is for Fujitsu not to maintain a level of resource which is not commensurate with the volume of change which Post Office will require. If a large number of OBC activities can be forecast by Post Office under the contract, Fujitsu will flex the level of resource accordingly. OBC charges are to be confirmed.

QX-42 Section 3.3.2  
*Penultimate paragraph on page, "funding on a case by case basis" - What framework for charging would be applicable?*

Charging for any such resource will be subject to the published rates in force at that time. The underpinning commercial mechanism is expected to be equivalent to that currently in force for calling-off Additional SI. Consideration will however need to be given for providing Fujitsu with reasonable notice in order that resources can be appropriately scheduled in and out.

QX-43 Section 3.4.2.1  
*MTBF degradation is mentioned. What are the costs of additional engineering calls. Does the 50% relate to a threshold for all pieces of equipment or individual items. Do we just pay for items over 50% or all items once one or all pieces go over 50%*

The 50% relates to a threshold for individual items of equipment.

The payment will be for the number of calls over the 50% limit for each piece of equipment within each month.



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- QX-44 *Section 3.4.2.1*  
*How do the 5% and 50% relate to one another – is Fujitsu taking the 50% risk from the start of only 5% per annum?*

Fujitsu has taken the risk of a 50% degradation of MTBF which is anticipated to be reached at a rate of 5% per annum. If the rate of degradation is greater, then Fujitsu bears the risk, up to an aggregate of 50%.

- QX-45 *Section 3.5*  
*Branch MTBF Graph Three – With MTBFs deteriorating how can MTBF improve due to perception. MTBF is about equipment breaking and being fixed and this will get worse.*

The statement refers to the nature of the failures that will be experienced or 'how it will feel' to the sub-postmaster. The HNG-X service will reduce the number of incidents which are caused by software and network which are often seen as unacceptable by users in comparison to genuine hardware break which are understandable. The removal of those failures does improve the counter availability which the user will perceive as increased reliability and the removal of many network related calls will reduce the number of extended call durations.

- QX-46 *Section 3.4.2.1*  
*Fujitsu mention analysing failures by using "sense and respond". The description of the strategy is understood at Appendix A. Can Fujitsu provide evidence of implementation and Real benefits in this new approach*

Fujitsu's award winning Sense & Respond methodology has realised a number of tangible business benefits for both Fujitsu and our customers. Whether through reduced number of service desk calls, or better call handling and problem/incident management, Fujitsu has many success stories to share. These include BMI, where the use of Sense & Respond reduced report calls for Airport Check-in printers by 70%, and increased overall system user satisfaction by 20%. Applying Sense & Respond to Dixon's break fix service led to a 50% reduction in the number of service calls logged, and a significant improvement in internal customer satisfaction and productivity.

The inclusion of Sense & Respond within the Horizon Service Partnership proposal, provides Post Office with the opportunity to apply the methodology to its own operations (such as the NBSC), realising additional benefits to Post Office's business. Fujitsu would welcome the opportunity to have further discussions regarding this subject with Post Office in the near future. This question is to be responded to at a later date



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- QX-47 *Section 3.4.3*  
*Any new equipment will have to be agreed with Post Office Ltd and go through all existing authorisation processes eg Health and Safety Testing, EMC testing if required, Ergonomic Testing (Please comment)*

Agreed. However Fujitsu would recommend that the test process be reviewed in light of past experiences, to ensure that it is not above and beyond that which is deemed necessary for Post Office to operate in a competitive commercial environment.

- QX-48 *Section 6.2.2*  
*The proposal has Operational Services Savings for Ithaca over 8 years as £8.8M over 8 years. The Counter Printer proposal has £12.6M over 10 years. Why the difference when average yearly costs are £1.1 in proposal*

The assumed engineering support model used in Fujitsu's original Counter Printer proposal, and that now reflected in the Service Partnership proposal are different (i.e. use of next day engineering cover, treatment of excess call charges, and thresholds, etc). The Counter Printer proposal also involved a different roll-out strategy to that now envisaged.

For purposes of clarity, all commercial information presented in Fujitsu's Counter Printer proposal should be disregarded as no longer valid or applicable.

- QX-49 *Section 3.5*  
*First bullet point – does this mean that the costs for the 2000 ISDN backup lines and the 500 GSM phones have been excluded?*

Yes, items excluded.

- QX-50 *Section 3.5*  
*Please provide supporting information for the 3 charts.*

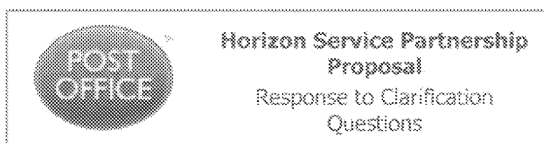
This topic is a subject of discussion at the meeting planned for 21<sup>st</sup> September.

- QX-51 *Section 3.5*  
*Is there any supporting data that predicts that the hard disks last until 2015?*

See response to QX-24. Hard disks which fail will be replaced as a maintenance call.

- QX-52 *Section 3.6*  
*Please provide pricing for each proposed option*

Details will be provided once agreement to the deal in principle has been established.



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QX-53 Section 4.4.1  
*The UI not defined –What are the impacts?*

The UI will be based on the results of joint work previously done with Post Office.

The impact will be mainly on look and feel. Processes and flows will be preserved whenever there are dependencies on processes and services. Changes may (but not necessarily will) occur to flows that don't impact remaining processes and services.

Fujitsu will bring usability and ergonomics expertise to ensure that use is intuitive and operational speed maintained.

QX-54 Section 4.4.1  
*Please explain what is meant by "specifically enhanced with patterns from the Fujitsu GlobalSTORE retail framework?"*

On top of general SOA best practices, the architecture and design of the counter applications will reuse architecture and design models used by technology components of GlobalSTORE.

QX-55 Section 4.4.1  
*What is the relationship of the style sheet definitions to the Use Cases?*

The use case will contain information on UI requirements of specific processes and procedures.

The level of granularity will depend on the specifics of a use case. For example, a set of style sheets can be combined into a pattern and the use case can simply specify the pattern. In other cases, specific style sheets can be associated with individual steps of the processes captured by the use case.

QX-56 Section 4.4.2.1  
*How will clients be impacted by migration?*

Fujitsu's proposal assumes that all existing FTMS clients will be migrated to EDG prior to pilot. In line with previously stated requirements, Fujitsu is planning to develop a seamless migration process which combined with unchanged agreed client application interfaces should minimise client disruption. Fujitsu does envisage some scheduled interruptions in service during the periods of cutover to HNG-X. Other related impacts have been identified within the assumptions log.



- QX-57 *Section 3.4.3*  
*How is the PC Bios battery calculation estimated? Can Fujitsu guarantee that we won't have mass failure before then? If we do who owns the risk? Are there any monitoring plans in place to assess failures to see if we are approaching problems now?*

The prediction is based on the predicted manufactures MTBF for the battery, and backed up by Fujitsu's current experience of the recent battery replacement programme.

Fujitsu cannot guarantee that a mass failure will not occur but will proactively monitor the battery performance via analysis of incidents to ensure that the replacement program is appropriately timed.

- QX-58 *Section 4.6*  
*On what basis have Fujitsu made their "best knowledge" assessment?*

This assessment is based on Horizon documentation.

- QX-59 *Section 4.10.2*  
*"some reference data may need to be produced in multiple formats" – this presumably includes Mails/Postal Services reference data. Is there any other reference data to which this will apply?*

At this stage Mails/Postal Services is the main item identified that will have an impact on the work required to Post Office.

More opportunities for optimisation may emerge during the design stage, in which case Fujitsu will be glad to discuss with Post Office the various options for migration support.

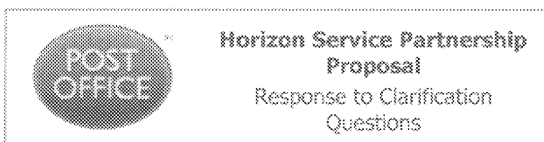
- QX-60 *Section 4.10.3*  
*How will data be migrated on the terminals? What is the anticipated impact on the office?*

In the current outline plan, all counters within a branch will migrate from Horizon to HNG-X at the same time – typically overnight.

Migration will be initiated by Post Office staff in the branches, without any on site presence by Fujitsu staff.

The migration process can contain steps that are performed manually by the Post Office manager to cause the switch over from Horizon to HNG.

Before and After reports must be available to show that the Post Office accounting and stock position is maintained over the migration step.



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A detailed plan will be jointly developed with Post Office as part of the design stage for HNG-X.

- QX-61 *Section 5.1*  
*How does Fujitsu envisage that the trade-offs between business capabilities and development cost will be managed at the detailed level?*

This is a governance issue. Fujitsu envisages that this would be managed by/during the requirements capture phase and the stage progression into design. Fujitsu does not currently believe that POL will be expected to make significant trade offs (if any) but there may arise cases where improved processes are required to be implemented.

- QX-62 *Section 5.1*  
*Last bullet on page - "appropriate" – please clarify.*

During the task breakdown/estimating phase it was assessed by the architecture/design team which components/component areas could be "packaged" up for offshore development. In general this was related to how clearly the task could be defined and what level of dependency existed with other components being developed or procured in the UK.

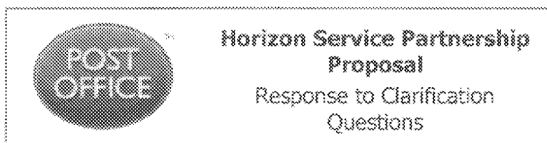
- QX-63 *Section 5.2*  
*How much contingency is 'included within this plan'?*

As discussed briefly at the presentation, Fujitsu has added contingency at the individual task level dependent on the complexity of the task being assessed such that the risk profile satisfies Fujitsu's corporate business process.

- QX-64 *Section 5.2.1*  
*Please provide further details of how you propose that Acceptance would be managed.*

Fujitsu would expect the existing approach of Acceptance Gateways to remain with entry / exit thresholds in terms of the number and type of acceptance incidents. An Acceptance Manager role on both sides would monitor and manage this progression. Some of the Acceptance Methods may need revision e.g. we may not have the concept of FS Test and POL (E2E) Test, but rather 'Functional Test' and 'Integration Test' or similar. This mainly depends on how we allocate responsibilities and resources to the various test stages.

Fujitsu believe that POL will want to keep the Acceptance Method of 'Design Walkthrough' as their way of exercising some control / involvement in the solution space. This is probably most relevant for the non-functional requirements but will require Fujitsu to consider what FS formal deliverables from the solution space will be.



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QX-65 *Section 5.2.1*  
*Does the need to restate all non-functional requirements include service levels?*

Yes, but Fujitsu anticipates significant re-use from previously stated requirements.

QX-66 *Fujitsu will provide during the workshop and the contractual negotiations the detail of the service levels under pinning this offer. Section 5.2.1*  
*What tasks are planned between now and Jan 2006?*

As discussed briefly at last week's presentation, Fujitsu believes that the following would be carried out between now and January 2006:

1. Start design activities for the infrastructure updates, specifically the Horizon data centre move and the deployment of branch routers and IP Stream.
2. Finalise and agree the requirements and acceptance processes and their implications on the overall lifecycle model.

Progress planning to the detailed level so that resourcing for the development and implementation phase can be identified and committed.

QX-67 *Section 5.2.2*  
*Who decides when it is "necessary" for FS to seek clarifications? Are FS prepared to take the risk of re-work being needed because necessary clarifications were not obtained?*

Fujitsu believes that this is really a governance issue that will be addressed by the establishment of appropriate Programme and Design forums to review and decide upon such subjects. With the correct joint controls in place it is expected that the risk of re-work being required is minimal. This will be developed during the Lifecycle/"Ways of Working" workshop on the 22<sup>nd</sup> September.

QX-68 *Section 5.2.2*  
*What system documentation will be provided to support future developments.*

Fujitsu intends that the design and development stages will be fully supported by documentation in line with good industry practice to enable the ongoing support and enhancement of the system. This documentation will follow a highly structured approach and will be shared with Post Office.

QX-69 *Section 5.2.3*  
*What is the timescale/Dependency on agreeing Acceptance Criteria?*

In terms of timescale we would need to agree the HNG-X Acceptance Strategy before contract and then have all Acceptance related material produced co-incident with the conclusion of the Requirements Specification Stage, currently planned for the end of June 2006.



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QX-70 Section 5.2.5  
*Would both App & OS upgrade be soft delivered?*

Yes

QX-71 Section 6  
*The charges are "estimated". When will Fujitsu be able to commit to costs, and on what basis – i.e. which costs will be fixed price, which T&M, what constraints (such as soft cap) will apply to the T&M?*

The pricing for the Development of the Application and Infrastructure is on a T&M basis. Fujitsu would expect to reconfirm the current estimate following validation of current assumptions by Post Office, and agreement to the Requirements Capture process prior to contract (i.e. the basis for Business Equivalence). The requirement for Soft Cap would be dependant on the level of precision reached on Requirements. The Operating and Ongoing SI charges will be fixed price, and unlikely to vary unless there are material changes to Post Office requirements and/or delays to the programme delivery.

N.B. The proposed charges are dependant on key programme milestones being achieved. FS is able to commit to these prices on the basis that all assumptions, including requirements, as stated in the proposal remain unchanged; the proposal is subject to contract

QX-72 Section 6.1  
*Please confirm the accuracy of the comparison with the June costs (attached).*

This appears to be correct

QX-73 Section 6.1  
*Please provide transparency of Operational Services and elements that make up the totals.*

This is a complete package. Details of cost drivers will be discussed during the services and price transparency work shops on Tuesday 20<sup>th</sup> September

QX-74 Section 6.2.2  
*The proposal has Capital Costs for new printer in Year8 as £9.5M. The Counter Printer proposal has £9.3M spend in 2006. As hardware prices generally tend to fall would this cost not reduce?*

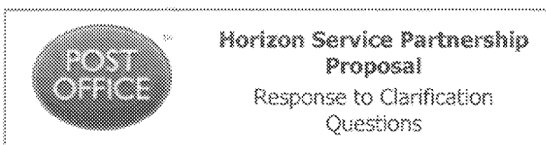
For purposes of clarity, all commercial information presented in Fujitsu's Counter Printer proposal should be disregarded as no longer valid or applicable.



| Current Grades    | Rate per working day | Rate per hour | Per hour 20% discount | Per hour 27.5% disc | Proposed Grades                      | Rate per working day |            |          | Rate per hour |            |          | Saving/(Cost) relative to full rate |            |          | Saving/(Cost) relative to 20% disc |            |          | Saving/(Cost) relative to 27.5% disc |            |          |
|-------------------|----------------------|---------------|-----------------------|---------------------|--------------------------------------|----------------------|------------|----------|---------------|------------|----------|-------------------------------------|------------|----------|------------------------------------|------------|----------|--------------------------------------|------------|----------|
|                   |                      |               |                       |                     |                                      | On Shore             | Near Shore | Offshore | On Shore      | Near Shore | Offshore | On Shore                            | Near Shore | Offshore | On Shore                           | Near Shore | Offshore | On Shore                             | Near Shore | Offshore |
| Software Engineer | £866                 | £35.71        | £36.66                | £62.14              | Systems Engineer                     | £462                 | £436       | £168     | £32.43        | £58.92     | £22.70   | 27%                                 | NA         | NA       | 9%                                 | 14%        | 67%      | -6%                                  | 5%         | 63%      |
|                   |                      |               |                       |                     | Senior System Engineer               | £560                 | £452       | £176     | £75.66        | £51.68     | £24.05   | 12%                                 | NA         | NA       | -10%                               | 11%        | 66%      | -22%                                 | 2%         | 61%      |
| Project Manager   | £823                 | £102.85       | £82.28                | £74.56              | Senior System Engineer               | £560                 | £452       | £176     | £75.66        | £51.68     | £24.05   | 26%                                 | NA         | NA       | 8%                                 | 25%        | 71%      | -1%                                  | 18%        | 68%      |
|                   |                      |               |                       |                     | Lead System Engineer                 | £359                 | £463       | £194     | £89.05        | £86.68     | £26.22   | 13%                                 | NA         | NA       | -3%                                | 4%         | 68%      | -19%                                 | 12%        | 65%      |
| Consultant 1      | £1,098               | £137.23       | £109.79               | £99.49              | Lead System Engineer                 | £559                 | £485       | £194     | £89.05        | £86.68     | £26.22   | 35%                                 | NA         | NA       | 19%                                | 40%        | 76%      | 10%                                  | 34%        | 74%      |
|                   |                      |               |                       |                     | Consultant, Unit Leader              | £771                 | £570       | £270     | £104.19       | £77.03     | £36.49   | 24%                                 | NA         | NA       | 5%                                 | 30%        | 67%      | -5%                                  | 23%        | 63%      |
| Consultant 2      | £1,448               | £181.06       | £144.85               | £131.27             | Consultant, Unit Leader              | £771                 | £570       | £270     | £104.19       | £77.03     | £36.49   | 42%                                 | NA         | NA       | 28%                                |            |          |                                      | 21%        |          |
|                   |                      |               |                       |                     | Senior Consultant, Manager           | £552                 |            |          |               | £128.63    |          |                                     | 29%        |          |                                    | 11%        |          |                                      |            | 2%       |
| Senior Management | £1,655               | £206.82       | £165.54               | £150.00             | Senior Manager, Principal Specialist | £1,118               |            |          | £161.08       |            |          | 27%                                 |            |          | 9%                                 |            |          | -1%                                  |            |          |

NB - For comparison it is important to recognise that the existing Project Manager and Senior Management Grades are seldom used

CORRECTED VERSION



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QX-75 Section 6.2.2  
*Do we have a list of the retained components?*

The retained components are the ones in the counter today, with the exception of the flat screen monitor, which is to be replaced.

QX-76 Section 6.2.3  
*Please provide the mapping from current grades to the new grades.*

Please see attached spreadsheet



D:\Rates\HNG KB  
Spreadsheet.xls

To be covered at the meeting between Fujitsu and POL on 20<sup>th</sup> September.

QX-77 Section 6.2.3  
*Please explain the basis of cost indexation for staff originating outside the UK? (We assume that this means the country in which the staff members are currently based, not their country of birth.)*

Yes, place of work

QX-78 Section 6.2.3  
*Please confirm the comparison of discounted and undiscounted rates.*

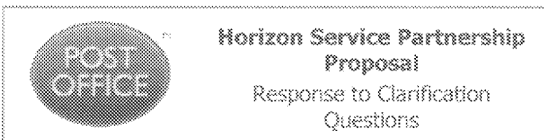
To be covered at the meeting between Fujitsu and POL on 20th September. Please see response to QX-76 above.

QX-79 Section 6.3  
*Please confirm our calculation of the effect of the cost variability.*

This topic is to be covered as part of the pricing meeting with POL on 20<sup>th</sup> September.

QX-80 Section 6.3  
*What basis is envisaged for deciding whether or not suitable new business requirements are available?*

The use of the term "suitable" in this context may be erroneous. Fujitsu would expect most if not all Post Office's incremental IT service requirements to be "suitable", subject



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only to Fujitsu's own good business policy in force at the time (i.e. acceptable commercials (price, risk, terms), and match with our core competencies/skills (i.e. our ability to deliver).

**QX-81**    *Section 6.3*  
*Would development costs count towards the incremental business?*

Yes, subject to the committed revenues being incremental, and recurring in more than one financial year (i.e. min of two years revenue).

**QX-82**    *Appendix A*  
*Please provide details of Gartner's modification of their definition around customer support Service Desks.*

To be provided at a later date.



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### 3 QUESTIONS SPECIFIC TO THE ASSUMPTIONS

QX-83 *Assumption 1.2*  
*Does "test" here mean "Acceptance Method"?*

Yes

QX-84 *Assumption 2.4*  
*When would Fujitsu expect to invoice for this re-used work?*

Q3 2005/6

QX-85 *Assumption 3.4*  
*Please explain the relationship between the 11,000 and 13,000 call number limits.*

Please could POL clarify this question?

QX-86 *Assumption 3.16*  
*What is the basis of this assumption, and who bears the risk of it proving wrong?*

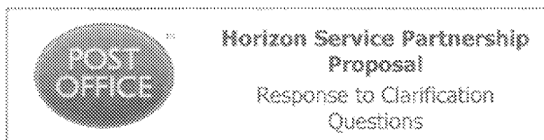
The current architecture requires frequent rebuilding of the PC within the spares loop, to ensure that they are configured with the latest version of the application configuration for gateway, slave etc. In the new architecture those PCs will be loaded with a single basic image which will be updated automatically when the spare is used. This removes the need for the upgrades. This assumption is at Fujitsu's risk unless POL requirements mandate a change.

QX-87 *Assumption 3.18*  
*Please explain how the branch hardware estate would be managed to remove "rogue" devices and so manage the MTBF downwards, in the absence of this detailed configuration management data.*

Fujitsu will record the serial number of any equipment at the point of repair only. This will enable multiple failures on single pieces of equipment to be identified and 'rogue' units to be removed from the spares loop.

QX-88 *Assumption 4.3*  
*Would distribution of the training software builds be by CD?*

No.



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The current approach utilises the deployment of upgraded hard disks to CTOs to be installed in standard counter configurations but an alternative approach could be considered.

- QX-89 *Assumption 7.1*  
*Please explain how this assumption relates to the proposed use of UML models as the basis for acceptance in the proposal.*

Acceptance criteria will be specified at the same level of detail as the requirements. The main assumption is therefore in terms of consistency.

For example, if a specific flow is explicitly mentioned in the use case then the acceptance process should require the validation of the process. If only process outcomes are specified in the use case, validation should be defined accordingly.

- QX-90 *Assumption 7.2*  
*But what are the financial consequences (for PO) if this statement not true?*

At this time, Fujitsu believes that a single, shared test rig environment will be sufficient. However if a larger test environment is required, then costs for establishing, operating and supporting it will arise. This will be subject to formal proposal from Fujitsu and agreement by Post Office at that time. It is expected that any such incremental cost will be the subject to Post Office's normal business case approvals.

- QX-91 *Assumption 7.6*  
*Please explain how long the "migration period" and the "longer period of time" are expected to be.*

Current design assumption is Bank Holiday weekend for the "migration period" and a further week as the "longer period of time" for non critical services. Final timescales subject to detailed migration planning design work.

- QX-92 *Assumption 7.7*  
*Are there any other Clients to which this would apply?*

We believe that this comment actually relates to 7.8 rather than 7.7?

LINK and CAPO are currently the only Clients who are responsible for connections into our data centre?

- QX-93 *Assumption 7.10*  
*Does this mean that the facilities being provided by the BNR project (ISDN backup*



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*lines and GSM mobiles) would no longer be available/applicable to branches that had had a router installed?*

The backup capabilities that BNR provides will be superseded by introduction of the Router. It is assumed the ISDN charges cease in 06/07

QX-94 *Assumption 7.12*  
*Is the bulleted list exhaustive?*

This is the complete list based on current design knowledge. Further optimisation potential may emerge at design stage, and Fujitsu will discuss opportunities with Post Office as/if they emerge.

QX-95 *Assumption 7.13*  
*What budget has Fujitsu allowed for the development of the alternative to bubble help?*

Fujitsu has assumed that an equivalent capability would be provided and expects the detailed approach to be defined based on the output of the requirement phase of the programme.

The granularity of the costing model used for the proposal does not support costing of cross-application features such as the help facility. This question is to be responded to at a later date

QX-96 *Assumption 7.15*  
*Would Fujitsu expect to have to meet a service level target for deployment of reference data received from PO at the data centre?*

The deployment of reference data within the data centre would continue to be subject to CS/PRD/058, but note that this is not an SLT.

QX-97 *Assumption 7.17*  
*Ref to "at the same time" - what does this mean? Same hour/day/other period of duration of migration (TBD)?*

It is implicitly assumed that this will be similar to all software upgrades and that the actual software update will take place overnight – similar to a major Horizon release update.



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QX-98 *Assumption 7.22*  
*Does this statement apply at branch level or at global level or both?*

This assumption is that there is no requirement for HNG-X transactions to be distinguished in either reports or accounting data. This assumption is primarily aimed at the global level. At branch level it is already assumed that transaction based reports will need to carry through transparently (see also 7.19).

QX-99 *Assumption 7.23*  
*Are there any other Clients to which this applies?*

Based on the current design thinking for HNG-X, these two Clients ( E-Pay and Streamline) are the only Client interfaces subject to this assumption.

QX-100 *Assumption 7.26*  
*How does this reconcile with the need to have different reference data for Post Services than currently for Mails?*

This assumption refers to the electronic interfaces between Horizon and external systems. The Mails data is supplied by other means and is not covered by the RDS application interface specification.



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#### 4 ADDITIONAL QUESTIONS ADDED 19<sup>TH</sup> SEPTEMBER

QX-101 Section 3.2

*Please provide a detailed description of what has changed and what remains against the current Operational Services and which of the existing Service levels will be retained.*

Subject of clarification meeting on 21st September. SLAs will be addressed by comments on the compatibility matrix. This question is to be responded to at a later date

QX-102 Section 3.2

*Table at 3.2 lists a 'Counter HW Retention' service what is this?*

This refers to the retention of the counter equipment within the Engineering service and is not a service in its own right. This question is to be responded to at a later date

QX-103 Section 3.2.1.2

*If Post Office choose to introduce new hardware i.e. counter printers, how will the corresponding savings on Mobile Engineering Service be calculated?*

Fujitsu would take account of the impact of the revised MTBF and cost of spares and repair that the new equipment would attract to generate an engineering cost which would be reflected in a revised Branch service charge. This question is to be responded to at a later date

QX-104 Section 3.2.1.2

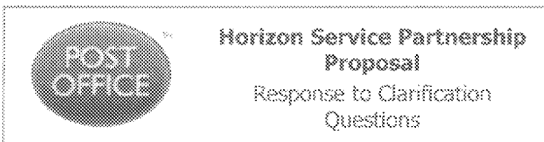
*If Post Office wish to accept the risk of Hardware degradation, can FS provide a service cost for this please?*

As discussed in previous submissions Fujitsu is best placed to manage this risk and therefore would be unable to provide the required service quality, especially in the situation of the retained equipment. This question is to be responded to at a later date

QX-105 Section 3.2.1.2

*Can FS please provide their assumptions on how they propose to conduct PAT testing. Is this going to be carried out during normal working hours, if yes what is the impact on the counter?*

This will be carried out as in the last programme. This question is to be responded to at a later date



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QX-106 Section 3.2.1.4  
*In the event of large scale ADSL failures how many Counters will the wireless network sustain and what will the transaction rate be?*

The wireless back up network is designed to manage 20% of the current forecast transaction load. In the event of large scale failure the invocation of the wireless network will have an impact on the transaction rate, it will not compromise the integrity of any transactions. The back up network has been designed to alleviate the many small scale network outages that occur, and not the very rare large scale outages. This question is to be responded to at a later date

QX-107 Section 3.2.1.7  
*There is limited mention of Postal Services reference data. This is a sizable chunk of the reference data population, so will this be implemented as per the CD? If not, has it been costed in to HNG-X?*

The effort for the realisation of capabilities for the management of reference data for Postal Services has been included in HNG-X.

The actual implementation model outlined in the CD may be subject to review at design stage.

This question is to be responded to at a later date

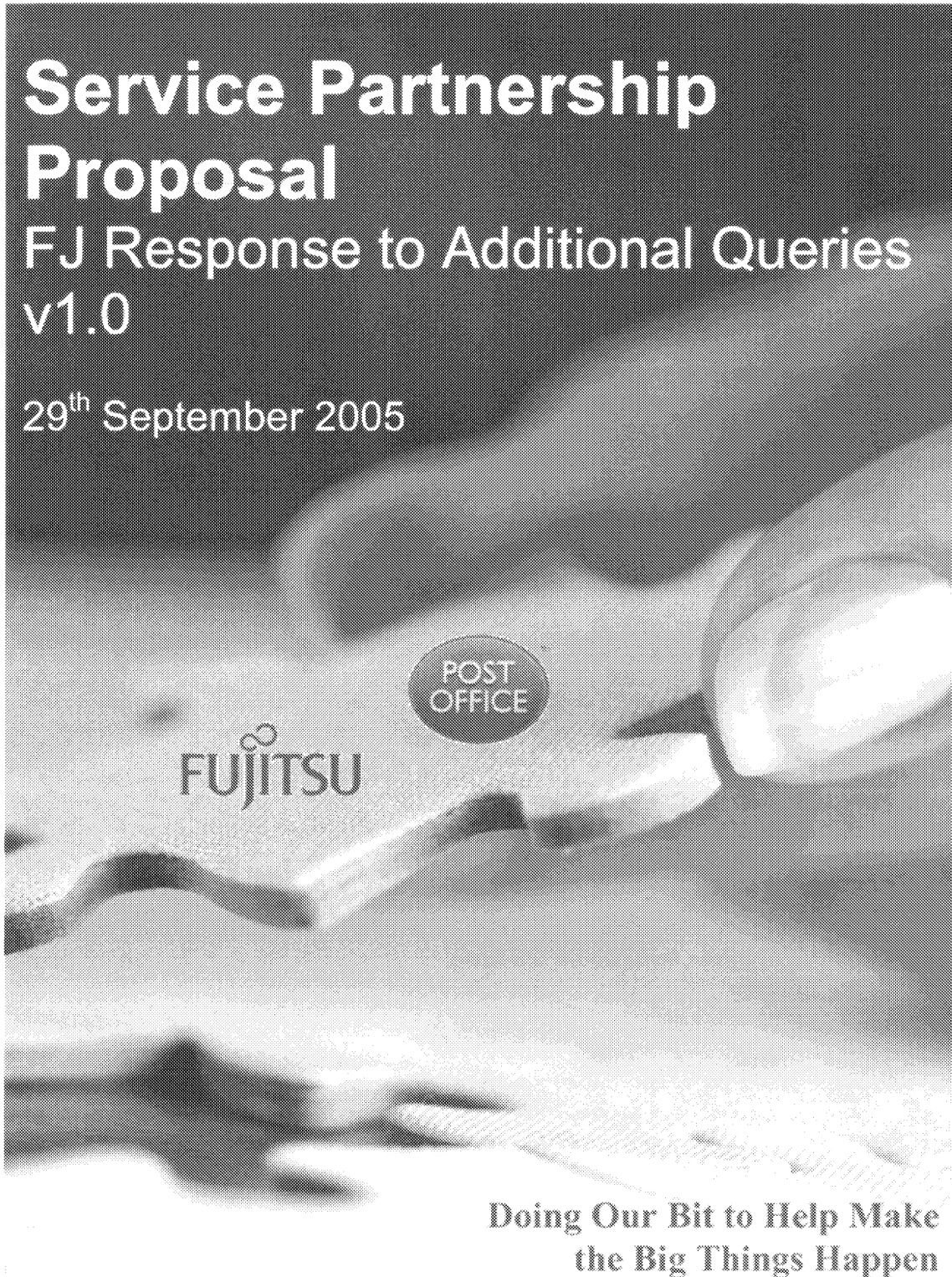


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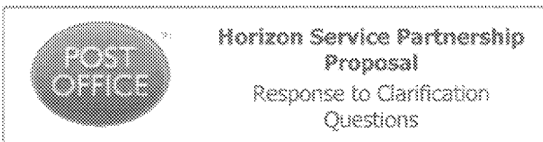
# Service Partnership Proposal

## FJ Response to Additional Queries v1.0

29<sup>th</sup> September 2005



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the Big Things Happen**



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## 1 QUESTIONS ARISING FROM FUJITSU RESPONSE TO POST OFFICE'S ORIGINAL QUESTIONS – 20TH SEPTEMBER

**Q01** *Post Office QX-28*  
*Fujitsu's proposal text and answer to this question is inconsistent or unclear. Post Office wish to have a definitive statement of what 50% degradation of MTBF means in practice (does it mean that there will be twice as many calls generated as there are now (i.e. 200% of calls), or is it 150% as the text suggests.*

The following is intended to provide a definitive statement of the basis of Fujitsu's offer.

The proposed mechanism for measuring MTBF degradation is the same as that used under the existing Horizon contract. i.e. where percentage degradation is defined as the % reduction in the MTBF of a particular type of equipment at a point in time compared with an original baseline.

e.g. For a device with an original MTBF of 1.5 years, the number of failures per annum would be 0.67. Degradation in MTBF of 50% would reduce the MTBF to 0.75, with the corresponding number incidents per annum becoming 1.33.

On this basis it can be seen that a 50% degradation in MTBF equates to a 100% increase in number of faults.

Fujitsu's Service Partnership proposal to Post Office provides for all engineering costs associated with supporting Post Office's branch equipment, subject to the following caps:

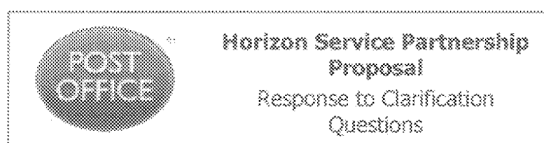
- 20% degradation in MTBF from contract signature to HNG-X migration
- 50% degradation in MTBF from HNG-X migration.

Degradation above these caps will give rise to excess engineering call charges (NB for the avoidance of doubt, any such charges will be triggered on exceeding the degradation cap for each individual type of device supported). At this time, Fujitsu does not expect any of Post Office's branch equipment to exceed these caps before April 2015.

**Q02** *Post Office QX-29*  
*What charges will apply if the split of 79/21 is exceeded?*

Additional charges will apply in the event of the distribution of categorised incidents exceeding those shown in the table below:

| Incident Category | Distribution |
|-------------------|--------------|
| 4hr               | 6.5%         |
| 8hr               | 14.0%        |
| NBD               | 79.0%        |



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|        |      |
|--------|------|
| Remote | 0.5% |
|--------|------|

Fujitsu has previously shared with Post Office the rationale behind the above distribution limits. This rationale confirmed that, based on current service experience, the proposed limits on distribution of incidents will be readily achieved in practice at negligible business impact to Post Office.

However, in the unlikely event that actual incident categorisation exceeds the distribution limits, additional charges will apply as set out in the table below.

| Unit charge per incident |        |
|--------------------------|--------|
| 4hr                      | £45.00 |
| 8hr                      | £22.00 |
| NBD                      | n/a    |
| Remote                   | n/a    |

Q03

*Post Office QX-41*

*There is a need to review the current OBC catalogue of services and clarify whether any services will have changed or been removed due to the architectural changes associated with HNG-X (NB as no business data will be held on branch, the need to remove equipment due to branch changes may be reduced). A statement of change impact to the current OBC catalogue is required.*

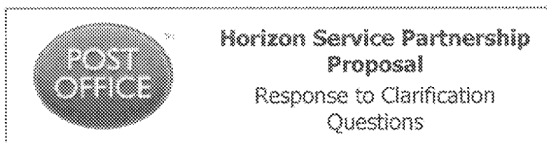
*There is also a need to clarify whether cost of like for like OBC charges will be higher, lower or the same as current.*

Under HNG-X, Fujitsu do not currently expect OBC charges to increase over current published rates. In practice, some of the existing services may become redundant or it may become possible for certain tasks to be performed by Post Office. This may lead to an overall net reduction in cost of delivering OBC work.

At this time the HNG-X design is not sufficiently developed in the OBC area to provide a definitive statement on costs or service changes. However, Fujitsu has provided below an example of how the approach to OBC may vary against current practice. This information is provided for guidance only at this time, and may be subject to change.

The potential changes to each of the OBC services as currently defined in the "OBC catalogue" (Fujitsu Services/Post Office Ltd Operational Business Change – Branch Interface Agreement – CS/IFS/003) are as set out below.

- OBC001 – Planned Closure - no significant change. Romec already perform the on-site work.
- OBC002 – Planned Short Notice Closure - no significant change. Romec already perform the on-site work.
- OBC003 – Unplanned Urgent Closure - Fujitsu Engineers currently perform the on-site work. However as no transaction data will be held at the counter under



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HNG-X, there may be an opportunity to transfer responsibility for performing such work back to Post Office.

- OBC004 – Counter decrease - Currently Fujitsu perform the on-site work for the "decrease from 2 counters to 1" service. As this special service will not be required (as there is no Gateway/Slave differentiation in HNG X), then all counter decreases will be standard service which Romec currently do. The time on site should reduce.
- OBC005 – Counter increase - The "increase from 1 counter to 2" service will no longer be required (see reason as for OBC004), therefore all counter increases will be standard service. The time on site should reduce. Currently Fujitsu do the onsite work. The HNG design is not sufficiently developed to determine whether the on site work aspect can change.
- OBC006 - Opening - The time on site should reduce. Currently Fujitsu perform the onsite work. The HNG design is not sufficiently developed to determine whether this aspect can change.
- OBC007 – Reopening - The time on site should reduce. Currently Fujitsu do the onsite work. The HNG design is not sufficiently developed to determine whether this aspect can change.
- OBC008 – Simple Refurbishment - No significant change. Romec already do the on-site hardware work.
- OBC009 – Complex Refurbishment - Where such refurbishments involve counter increases, then comment as for OBC005. Where such refurbishments involve counter decreases, then comment as for OBC004. There should be a reduction in lead times.
- OBC010 – Simple Relocation - Romec already do the on-site hardware work. There should be a reduction in lead times
- OBC011 – Complex Relocation - Where such relocations involve counter increases, then comment as for OBC005. Where such relocations involve counter decreases, then comment as for OBC004. There should be a reduction in lead times.
- OBC012 – Exchange of CRT with Flat Screen - Currently undertaken by Fujitsu engineer. Responsibility could move to Post Office.
- OBC013 - Ad Hoc Change - this service covers requests not included in the other services. Probably no change.
- OBC018 – Conversion on site - Required when it is just a FAD code change. It is expected that prior to HNG X this service will no longer be required by Post Office.



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- OBC022 – CPU Relocations - No significant change. Romec already do the on-site work
- OBC023 – Exchange of Fixed to Mobile Kit (and vice versa) - Currently Fujitsu do the onsite work. The HNG design is not sufficiently developed to determine whether this aspect can change.

From the above it can be seen that there are a few areas where Post Office could have greater responsibility for delivering OBC tasks, although it is not immediately obvious that there are any services which would require no involvement from Fujitsu as work will still need to be done with data centres, comms connections, etc.

In any event, where branch changes were to be undertaken by Post Office it would still be necessary to ensure that Fujitsu is advised prior to and following such activity taking place. Any damage caused during such Post Office activities would be Post Office's responsibility and not Fujitsu's.



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## 2 ADDITIONAL QUESTIONS ARISING FROM ASSUMPTIONLOG V3.0

*Q01 Post Office wish to include in their business case the benefit associated with improved development productivity under HNG-X. Under HNG this was expected to be 30%. This appears to be the case under HNG-X as pre-pay is still 30% lower than under Horizon (in fact is even lower than this due to the effect of new SI rates). FJ to confirm whether they believe 30% improvement is still achievable.*

Improved development productivity will be an outcome from the HNG-X development and HNG sized reductions have been assumed in the amendment to pre-paid allowance. However, this was no longer a primary driver under HNG-X and the design/development/test approach has been revised to deliver HNG-X and not based on delivering large ongoing developments. Fujitsu cannot confirm a 30% improvement, but can confirm that a level of improvement can be expected.

*Q02 Can FJ clarify if the 20% transaction capacity of the wireless back-up network is an improvement on HNG (thought to be only 10%)?*

The quoted figure of 20% is incorrect. The actual capacity for the proposed wireless back-up network is 10% of transactions (as per the original HNG design).

*Q03 Assumptions 3.2.3 & 3.2.4  
Can FJ confirm that the statements made are correct, and clarify whether these are date or event driven changes*

Assumption 3.23 is dependant on the contract signature to achieve the date specified.

Assumption 3.24 is dependant on the timing of the new application roll out.

*Q04 What scale of incremental cost would arise of the training solution for CTOs was based on 200 business processes, rather than 100?*

Fujitsu has not yet established, within the estimating process, the level of granularity that enables the cost of the CTO deliverable to be established in isolation from the total solution. Fujitsu is able to confirm that the provision of 200 processes is linearly associated with the provision of 100.



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### 3 OTHER GENERAL QUESTIONS

*Q01 Why is the operating charge for HNG-X, higher than that under the original HNG?*

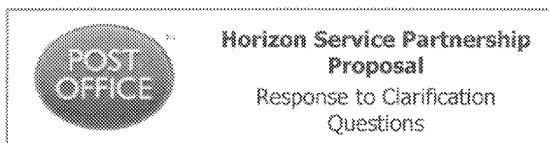
Fujitsu's last HNG proposal (June 2005) included provided for the replacement of most existing counter equipment, including the counter printer. The recent Service Partnership proposal does not include the replacement of this equipment, and therefore reflects higher engineering support costs and service desk activity associated with supporting older, and more unreliable equipment. This accounts for the increase in operational charges under HNG-X, but also the substantial reduction in capital and roll out charges.

*Q02 S90 baseline is understood, but can Fujitsu provide a more precise statement?*

The estimates for S90 were prepared against a baseline position at the 1<sup>st</sup> August 2005. Approved changes since that date have not been factored into the costs and these include CRs 533, 491V3, 560, 547 and 572. These will be progressed during the design stage and, subject to generating a cost neutral position, will be included in the release at no cost to Post Office.

*Q03 Is there still a facility for Post Office to test Reference Data drops prior to release into the live estate?*

The operational services to be provided by Fujitsu will include the ability, for Post Office, to test Reference Data prior to release into the live environment.



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#### 4 SUPPLEMENTARY QUESTIONS FROM POST OFFICE (NO 2)

The following provides answers to the supplementary questions formally submitted by Post Office on XX September 2005. These questions are repeated below and follow Post Office's own numbering convention.

- QX-108 *How does the proposed application level security model work? In particular:*
- How does it interact with services that might be supplied by InterStage?*
  - How does it manage the transmission security supplied by VPNs?*
  - What standards will it comply with?*
  - How will this work at the Data Centres?*
- Are there any CESG-approved application level security packages?*

This level of detail will be provided at the "design assurance" stage of the lifecycle following the completion of detailed design activities. It is not Fujitsu's current intent to utilise any packages in the provision of this solution.

- QX-109 *Post Office security are concerned that the retention of 486-architecture counter terminals will not allow XP to be run. With the proposal of the removal of Branch firewall structure in the HNG proposal, it was originally proposed to rely on the individual XP firewalls on Counter terminals to protect them. The proposed terminal retention strategy would put Branch equipment protection at risk. How do Fujitsu Services plan to address this risk?*

The current counter architecture is not 486 based – the processors are 400MHz Pentium II.

The chosen O/S solution for the branches will include a firewall solution and this is included within the estimated pricing.

- QX-110 *Post Office need Fujitsu Services to supply details of the function of the end to end security model at all levels. In particular:*
- How do Fujitsu Services plan to provide equivalent transmission security to the HNG model of IPSec VPNs?*
  - How does the proposed model fit the Royal Mail Group design criteria of a centralised data model with deperimeterised, on-demand security?*
  - How will the proposed model comply with ISO17799?*
  - How will data be protected at Data Centres? What is the proposed security infrastructure architecture (firewall/DMZ, network topology etc.)? What level of security will it provide?*
  - How will the proposed model support peripheral third-party developed Web-based solutions?*

- The security model proposed supports the concept of information integrity (but not necessarily confidentiality) in line with best practice in the retail and financial



THE POSSIBILITIES ARE INFINITE

services sectors. Security features in line with current Horizon practice could be provided at additional cost. Note that it has been proposed to exclude an IPSec VPN from the branch network as no such facilities are in place on Post Office's own ATM network. As the risk and consequences of a confidentially breach on the ATM network is similar to that under HNG-X and Post Office must have undertaken a risk assessment on the ATM network it has been assumed by Fujitsu that this is therefore acceptable for HNG-X.

- (ii) Please clarify your concerns with respect to the RMG design criteria. Fujitsu believes that the solution offered provides a model that presents appropriate "parameterisation" at both the branch and data centre level.
- (iii) Fujitsu believes that the solution offered is fully compliant with ISO 17799 and does not understand the nature of the query.
- (iv) Fujitsu believes that the architecture notes provide to Clive Read & John Wheeler on the 23rd September addresses this enquiry.
- (v) The current proposed model does not support peripheral third-party developed web-based solutions as this is a Release 2+ requirement that is not addressed within the cost reduction constraints of HNG-X.

QX-111 *Reduction of disk level encryption seems nugatory in view of fact that model for HNG was going to be migrated from store-and forward to centralised data storage. How do FS plan to implement this and what benefit will it give Post Office? We cannot accept any reduction in disk encryption standards at the Data Centre.*

Fujitsu does not understand the nature of the question with respect to data encryption within the branches and would seek to discuss this further with Post Office.

Disk encryption within the Horizon data centre is used to ensure that sensitive material is not compromised in the event of a hardware replacement (e.g. hard disk replacement by an engineer). Any sensitive material on disks within servers that is currently encrypted in Horizon will continue to be encrypted in HNG-X. Any sensitive material within the EMC arrays will continue to be held in clear and existing procedures to ensure that any disks are securely cleansed if they are replaced will continue.



**Horizon Service Partnership  
Proposal**  
Response to Clarification  
Questions



THE POSSIBILITIES ARE INFINITE

QX-112 *"To the best knowledge of Fujitsu, the proposed solution is fully compliant with legal and commercial requirements that Post Office must currently meet." This refers to a retail based system, but is not an acceptable statement as it does not give Post Office confidence that FS are aware of all the standards they must comply with. Which requirements are Fujitsu planning to comply with? How does FS plan to be compliant with them? All such compliance requirements must be discussed with Post Office/RMG from the outset of development (see Comment 1).*

Fujitsu, in its recent proposal, referred to a security model that supported best practices within both the retail and financial services markets as opposed to a security model taken from the retail sector.

- (i) Fujitsu wishes to understand which standards Post Office needs the solution to comply with. In particular, are there any requirements not already set out in either the current Horizon contract or the HNG CD that need to be complied with.
- (ii) Fujitsu has provided Post Office with detailed architectural notes that describe the security model in more detail. Fujitsu would be pleased to discuss these further with Post Office as required.

Fujitsu is in the process of updating the compliance matrix for HNG so that Post Office can assess the baseline movement to HNG-X. It is anticipated that the update of this matrix will address a number of outstanding queries within Post Office.

QX-113 *Does the retail based security model referred to in this paragraph propose to support, and comply with, the appropriate Financial trading standards e.g. PCI? If so, which ones and how?*

Please see responses to question QX-112.





Gandhi Pritesh  
GRO GRO  
GRO  
03/11/2005 15:02

To: "John.Wheeler" GRO  
cc: mike.j.hannon GRO Lenton-Smith Colin  
<Colin.Lenton-Smith GRO>, Baldwin Dave  
<Dave.Baldwin GRO>, will.russell GRO  
keith.k.baines GRO  
Subject: Re: Fujitsu response to additional queries

John,

In response to Mike's question below, I have spoken to Dave, and can provide the following answer:

In the event of the proportion of 4hr and/or 8hr fix percentages increasing, the effect will be a proportionate reduction in the percentage of next day business response. In the event of this occurring, additional charges will apply. However, if POL were to contract to a greater proportion of calls for NBD than what is currently offered, this will lead to an overall reduction in Fujitsu support costs.

I trust that this resolves your query with regard to this specific clarification point. If you need further assistance with this or other queries, please do not hesitate to contact me.

Regards, Pritesh

Pritesh Gandhi  
Post Office Account  
Fujitsu Services

-----Original Message-----

From: John.Wheeler GRO  
Sent: 03 November 2005 12:11  
To: Gandhi Pritesh  
Cc: mike.j.hannon GRO Colin.Lenton-Smith GRO  
dave.baldwin GRO will.russell GRO  
keith.k.baines GRO  
Subject: Re: Fujitsu response to additional queries

Pritesh,

My apologies but it is possible we did not send back some follow-up questions on this (Mike Hannon passed some queries to me which I cannot find in my outbox). Can I therefore ask for the following clarification:-

Q2 QX-029 -  
Last paragraph - Don't understand this, how can distribution limits exceed 100%? and, how can they be only additional charges? Are there no savings if we change the profile to more NBD category incidents? What's the impact on cost terms if we remove the 8hr category and include in NBD category?

I have copied this into Dave Baldwin on the assumption that this will be routed via his area.

Please give me or Mike Hannon a call if you need further clarification here. Mike's number is GRO

Many thanks

John Wheeler  
Horizon NG Programme Support  
Mobile : GRO  
Desk number : GRO

Gandhi Pritesh

To: [GRO] [GRO] [GRO]  
"/keith.k.baines [GRO]

"/john.wheeler [GRO] [GRO]

cc: Spence Kevin  
[GRO] [GRO] Lenton-Smith Colin

29/09/2005 13:10  
[GRO] [GRO] Foley Liam [GRO] [GRO]

Subject: Fujitsu

response  
to additional queries

Keith/John,

PSA: Fujitsu's initial response to additional Post Office questions, captured since the original submission of the Service Partnership proposal, and during subsequent meetings and presentations.

Kind Regards,  
Pritesh Gandhi

Business Development  
Post Office Account

Fujitsu Services  
Forest Road, Feltham, Middlesex, TW13 7EJ  
Tel: [GRO] Internal: [GRO]  
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Fujitsu Services Limited, Registered in England no 96056, Registered Office 26, Finsbury Square, London, EC2A 1SL

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(See attached file: Response to Additional Questions v1.0.doc)

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\*\*\*\*\*

John Wheeler  
22/09/2005 10:10

To: bill.reynolds [GRO] Giacomo.Piccinelli [GRO]  
david.johns [GRO] Steve  
Page [GRO] Clive  
Read [GRO] Jason  
Crellin [GRO] Paul  
Homan [GRO]  
cc: David X Smith [GRO] Beverley  
Dunr [GRO] Keith K  
Baines [GRO] Will  
Rusell [GRO] Adrian  
Batt [GRO] Mike A  
Wells [GRO] Lyn  
Darbon [GRO] Kevin  
Tallboy [GRO]

Subject: Summary of Tuesday's HNG-X Architectural discussion

All, I have attempted to capture the main discussion points and actions arising from Tuesday's meeting. Please get back to me if you have any queries or I have misinterpreted anything.

Many thanks

John Wheeler  
Horizon NG Programme Support  
Mobile : [GRO]  
Desk number : [GRO]

=====  
==

1. Rejection of Thin Client solution

Fujitsu chose not to proceed with a thin client architecture based on an assessment that the currently limited network capacity and the extended lifespan of existing kit outweighed advantages of lower servicing costs. This was calculated at broad level, but the case appears to be clear.

POL will need to be able to justify this assessment internally and externally, and need to understand in more detail what factors were considered and what assumptions were made. - **Action FS to provide (high priority).**

Side question : One justification for retaining local processing is to fit with the current view on typical retail models - however are these models now beginning to move on?

2. COTS solution versus bespoke

Fujitsu assessed the level of compliance of leading COTS solutions, but none has more than circa 50% fit, of which the "out-of-the-box" to "configurable" split is approx 20% to 30%. Once licence costs and costs of specialised customisation are taken into account, this approach quickly becomes a non-runner. Fujitsu also considered building on POL's existing use of SAP, but again ruled this out because of lack of fit and cost of customisation. Again, POL need to understand the assumptions and high level calculations used by Fujitsu in coming to these conclusions. - **Action FS to provide (medium priority)**

3. Complexity of architecture

Horizon's current architecture is complicated by the Riposte product and in particular the Correspondence Server. The proposed architecture appears to replicate much of the current complexity, with a number of layers / agents between the counter and back-end application. What options were considered for simplifying this, and why were they rejected? - **Action FS to provide (medium priority)** - but see also item 5 below.

4. Use of Globalstore concepts, and footprint of Interstage

Fujitsu are using a number of concepts from the Globalstore product set, but not the actual product (for example the approach to the use of XML adaptors comes from Globalstore). The proposed use of Interstage is broadly the same as previously, and Fujitsu are currently assessing the most appropriate toolsets and use of these toolsets. POL noted that we need to understand the thinking here as there will need to be a feedback loop from FS tooling back to POL requirement products. This will be progressed as part of discussions on "ways of working".

5. HNG-X Architecture document (working document)

Fujitsu will provide POL a copy of the internal (non-formal) architectural design documentation. This will help enormously in understanding what is proposed (and will underpin items 3 and 4 above). - **Action FS to provide (highest priority) - by end of week:-23rd Sep.**

6. Other items

6.1 Dave Johns confirmed that the XP rollout will be implemented remotely.

6.2 It was confirmed that the 2 hr recovery under DR applies to settlement (as well as banking)

6.3 Dave Johns is working on updating the HNG Compliance Matrix against HNG CD Version 2. This will be invaluable in understanding what the proposal will actually deliver. **Action FS - target 28 Sep.** (See also 7.2 below)

6.4 Steve Page has a list of questions on what functionality is being provided. This will probably be covered by 6.3 above, but Steve will send list for completeness. **Action POL.**

7. Next steps

7.1 Following receipt of Architectural document, POL will be in better position to prioritise further architectural questions. It is likely we will want to hold a further joint meeting early next week, but in the interim all parties are in a position to respond to queries as required.

7.2 Following receipt of compliance matrix, POL will want to discuss "problem areas" in more detail. As an example, POL already believe that CTO Training will be difficult to sell to the business, but will wait until we have a broader understanding of issues before progressing/prioritising individual items

7.3 Any further meetings will be set up through John Wheeler and Bill Reynolds.

FUJITSU SERVICES - CONFIDENTIAL

COST MODEL

OPERATIONAL SERVICES

|                                | Y 06    | Y 07  | Y 08  | Y 09  | Y 10  | Y 11  | Y 12  | Y 13  | Y 14  | Y 15  |
|--------------------------------|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Help Desk Service</b>       |         |       |       |       |       |       |       |       |       |       |
| Total model                    | 2.42    | 1.73  | 1.75  | 1.39  | 1.29  | 1.19  | 1.14  | 1.08  | 1.06  | 1.02  |
| Variable cost                  | 2.32    | 1.63  | 1.65  | 1.29  | 1.19  | 1.09  | 1.04  | 0.98  | 0.96  | 0.92  |
| Fixed cost                     | 0.10    | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  | 0.10  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 34.1%   | 37.0% | 36.0% | 23.0% | 28.6% | 33.6% | 35.8% | 39.2% | 39.9% | 41.6% |
| Margin on variable             | 34.1%   | 37.0% | 36.0% | 23.0% | 28.6% | 33.6% | 35.8% | 39.2% | 39.9% | 41.6% |
| Margin on fixed pricing        | 3.67    | 2.74  | 2.73  | 1.81  | 1.80  | 1.79  | 1.78  | 1.77  | 1.75  | 1.75  |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>Engineer Service (UKS)</b>  |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 12.93   | 9.74  | 9.67  | 8.06  | 8.26  | 8.53  | 8.70  | 8.62  | 8.73  | 8.88  |
| Variable cost                  | 10.70   | 9.32  | 9.25  | 7.64  | 7.84  | 8.11  | 8.28  | 8.20  | 8.31  | 8.46  |
| Fixed cost                     | 2.23    | 0.42  | 0.42  | 0.42  | 0.42  | 0.42  | 0.42  | 0.42  | 0.42  | 0.42  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 10.0%   | 12.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.8% | 15.0% | 15.0% |
| Margin on variable             | 10.0%   | 12.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.8% | 15.0% | 15.0% |
| Margin on fixed pricing        | 14.36   | 11.07 | 11.38 | 9.48  | 9.71  | 10.04 | 10.23 | 10.24 | 10.27 | 10.44 |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>OBC - Branch Charge</b>     |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 0.39    | 0.40  | 0.34  | 0.11  | 0.11  | 0.10  | 0.09  | 0.07  | 0.06  | 0.06  |
| Variable cost                  | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Fixed cost                     | 0.39    | 0.40  | 0.34  | 0.11  | 0.11  | 0.10  | 0.09  | 0.07  | 0.06  | 0.06  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 15.0%   | 25.0% | 25.0% | 35.0% | 30.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| Margin on variable             | 15.0%   | 25.0% | 25.0% | 35.0% | 30.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| Margin on fixed pricing        | 0.45402 | 0.53  | 0.46  | 0.17  | 0.15  | 0.15  | 0.13  | 0.10  | 0.10  | 0.08  |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>KitchenT:</b>               |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 5.84    | 9.71  | 10.14 | 5.35  | 4.65  | 4.58  | 4.53  | 4.29  | 4.29  | 4.26  |
| Variable cost                  | 2.92    | 4.85  | 5.07  | 2.67  | 2.32  | 2.29  | 2.26  | 2.15  | 2.14  | 2.13  |
| Fixed cost                     | 2.92    | 4.85  | 5.07  | 2.67  | 2.32  | 2.29  | 2.26  | 2.15  | 2.14  | 2.13  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 46.0%   | 20.0% | 20.0% | 30.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| Margin on variable             | 46.0%   | 20.0% | 20.0% | 30.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| Margin on fixed pricing        | 10.82   | 12.14 | 12.08 | 7.64  | 6.20  | 6.10  | 6.03  | 5.72  | 5.71  | 5.88  |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>Network Service</b>         |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 12.37   | 11.93 | 8.95  | 6.78  | 6.05  | 5.70  | 5.49  | 5.10  | 4.98  | 4.84  |
| Variable cost                  | 8.69    | 6.93  | 5.46  | 4.45  | 3.85  | 3.69  | 3.48  | 3.37  | 3.25  | 3.11  |
| Fixed cost                     | 3.68    | 5.00  | 3.48  | 2.32  | 2.20  | 2.11  | 2.01  | 1.74  | 1.73  | 1.72  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 33.1%   | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| Margin on variable             | 33.1%   | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| Margin on fixed pricing        | 18.50   | 13.41 | 10.05 | 7.81  | 6.80  | 6.40  | 6.16  | 5.73  | 5.60  | 5.43  |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>Systems Management</b>      |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 3.35    | 3.45  | 3.55  | 2.53  | 2.44  | 2.51  | 2.42  | 2.30  | 2.27  | 2.21  |
| Variable cost                  | 2.85    | 2.93  | 3.03  | 2.00  | 1.92  | 1.98  | 1.90  | 1.78  | 1.75  | 1.68  |
| Fixed cost                     | 0.50    | 0.52  | 0.52  | 0.53  | 0.52  | 0.53  | 0.52  | 0.52  | 0.52  | 0.53  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 52.0%   | 35.0% | 25.0% | 35.0% | 28.0% | 27.0% | 23.0% | 25.0% | 25.0% | 25.0% |
| Margin on variable             | 52.0%   | 35.0% | 25.0% | 35.0% | 28.0% | 27.0% | 23.0% | 25.0% | 25.0% | 25.0% |
| Margin on fixed pricing        | 8.97    | 5.31  | 4.74  | 3.89  | 3.89  | 3.43  | 3.15  | 3.07  | 3.02  | 2.94  |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>Product Support Service</b> |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 2.93    | 3.19  | 3.20  | 2.78  | 0.39  | 0.38  | 0.38  | 0.36  | 0.36  | 0.36  |
| Variable cost                  | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Fixed cost                     | 2.93    | 3.19  | 3.20  | 2.78  | 0.39  | 0.38  | 0.38  | 0.36  | 0.36  | 0.36  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 14.2%   | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% |
| Margin on variable             | 14.2%   | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% |
| Margin on fixed pricing        | 3.42    | 3.54  | 3.56  | 3.99  | 6.43  | 6.42  | 6.42  | 6.40  | 6.40  | 6.40  |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>Reference Data Manag</b>    |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 0.54    | 0.52  | 0.59  | 0.49  | 0.41  | 0.34  | 0.33  | 0.32  | 0.31  | 0.29  |
| Variable cost                  | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Fixed cost                     | 0.54    | 0.52  | 0.59  | 0.49  | 0.41  | 0.34  | 0.33  | 0.32  | 0.31  | 0.29  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 20.0%   | 29.0% | 19.0% | 31.1% | 39.6% | 46.0% | 46.2% | 46.8% | 47.0% | 47.8% |
| Margin on variable             | 20.0%   | 29.0% | 19.0% | 31.1% | 39.6% | 46.0% | 46.2% | 46.8% | 47.0% | 47.8% |
| Margin on fixed pricing        | 0.67    | 0.73  | 0.73  | 0.71  | 0.69  | 0.62  | 0.62  | 0.60  | 0.59  | 0.56  |
| pricing                        | 0.00    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| <b>Third Line Software Sup</b> |         |       |       |       |       |       |       |       |       |       |
| Total cost                     | 1.77    | 1.60  | 1.49  | 1.35  | 1.05  | 1.02  | 1.00  | 0.94  | 0.90  | 0.82  |
| Variable cost                  | 1.40    | 1.24  | 1.12  | 0.98  | 0.69  | 0.66  | 0.63  | 0.57  | 0.54  | 0.45  |
| Fixed cost                     | 0.37    | 0.37  | 0.37  | 0.37  | 0.37  | 0.37  | 0.37  | 0.37  | 0.37  | 0.37  |
| Over head allocation           | 3.4%    | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
| Margin on total                | 27.4%   | 5.0%  | 7.0%  | 15.0% | 10.0% | 10.0% | 10.0% | 10.0% | 15.0% | 10.0% |

shared desk so fixed set at 1 person normal hours for training and knowledge transfer plus 20 of base infrastructure

Colin Lenton-Smith: already included in costs in all services

Engineer Service (UKS) now includes excess calls

Colin Lenton-Smith: number of calls per console with and without spares + excess call

KitchenT: 1 x fix 1x eng 0x link spares handling at £250K (no band 1)

KitchenT: datacentre link 4 people 1 int 1 unix 1 ops head 50% assumed fixed as a base architecture - fixed cost also attracts productivity savings

Colin Lenton-Smith: consider active/DR higher margin to cover A&L rental charges through group charges

Network Service NOTES: 2 people 5 shifts minimum manning

Systems Management

Product Support Service

Reference Data Manag

Third Line Software Sup

Colin Lenton-Smith: volumes per latest cost

Colin Lenton-Smith: Margin should be higher fixed post for dedicated desk pricing 05/06

Colin Lenton-Smith: No of Client Interfaces

Colin Lenton-Smith: Availability

Colin Lenton-Smith: higher margin to cover A&L rental charges through group charges

Systems Management

Product Support Service

Reference Data Manag

Third Line Software Sup

|                                           | 2.4                                  | 1.7                                  | 1.5                                  | 1.6                                  | 1.2                                  | 1.1                                  | 1.1                                  | 1.0                                  | 1.1                                  | 0.9                                  |
|-------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| pricing check                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| <b>Management Informatics</b>             |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
| Total cost                                | 0.38                                 | 0.48                                 | 0.48                                 | 0.28                                 | 0.28                                 | 0.27                                 | 0.27                                 | 0.26                                 | 0.19                                 | 0.18                                 |
| Variable cost                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| Number of reports                         | 0.38                                 | 0.48                                 | 0.48                                 | 0.28                                 | 0.28                                 | 0.27                                 | 0.27                                 | 0.26                                 | 0.19                                 | 0.18                                 |
| Frequency of reports                      | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| Process time/ Headcount                   | 0.38                                 | 0.48                                 | 0.48                                 | 0.28                                 | 0.28                                 | 0.27                                 | 0.27                                 | 0.26                                 | 0.19                                 | 0.18                                 |
| Fixed cost                                | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
| Over head allocation                      | 32.7%                                | 15.0%                                | 15.0%                                | 30.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 30.0%                                |
| Margin on total                           | 0.57                                 | 0.57                                 | 0.57                                 | 0.40                                 | 0.37                                 | 0.37                                 | 0.36                                 | 0.35                                 | 0.25                                 | 0.25                                 |
| pricing check                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| <b>Service Management S</b>               |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
| Total cost                                | 1.68                                 | 1.65                                 | 1.65                                 | 1.58                                 | 1.43                                 | 1.06                                 | 1.04                                 | 1.00                                 | 0.92                                 | 0.86                                 |
| Variable cost                             | 1.24                                 | 1.21                                 | 1.21                                 | 1.14                                 | 0.99                                 | 0.62                                 | 0.61                                 | 0.56                                 | 0.48                                 | 0.42                                 |
| FS service provision (breadth of service) | Horizon                              | Horizon                              | Horizon/NGS                          | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  |
| Complexity of customer                    | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation |
| Frequency of reporting                    | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 |
| Fixed cost                                | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
| Over head allocation                      | 27.6%                                | 25.0%                                | 25.0%                                | 22.0%                                | 20.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 35.0%                                |
| Margin on total                           | 2.32                                 | 2.19                                 | 2.20                                 | 2.03                                 | 1.79                                 | 1.41                                 | 1.39                                 | 1.33                                 | 1.22                                 | 1.32                                 |
| pricing check                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| <b>Reconciliation Service</b>             |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
| Total cost                                | 0.22                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.20                                 | 0.19                                 | 0.19                                 | 0.18                                 |
| Variable cost                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| Quantity of requests                      | 0.22                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.20                                 | 0.19                                 | 0.19                                 | 0.18                                 |
| Response SLA                              | 0.22                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.20                                 | 0.19                                 | 0.19                                 | 0.18                                 |
| Process time/ Headcount                   | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
| Fixed cost                                | 10.0%                                | 25.0%                                | 25.0%                                | 20.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 20.0%                                |
| Over head allocation                      | 0.24                                 | 0.25                                 | 0.25                                 | 0.25                                 | 0.28                                 | 0.27                                 | 0.27                                 | 0.26                                 | 0.25                                 | 0.22                                 |
| Margin on total                           | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| pricing check                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| <b>Security Management S</b>              |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
| Total cost                                | 0.69                                 | 0.88                                 | 0.90                                 | 0.47                                 | 0.47                                 | 0.46                                 | 0.45                                 | 0.43                                 | 0.42                                 | 0.40                                 |
| Variable cost                             | 0.49                                 | 0.69                                 | 0.69                                 | 0.27                                 | 0.26                                 | 0.25                                 | 0.25                                 | 0.23                                 | 0.22                                 | 0.19                                 |
| Security policy                           | Horizon                              | Horizon                              | Horizon/NGS                          | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  |
| Audit queries                             | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   |
| Process time/ Headcount                   | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 |
| Fixed cost                                | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
| Over head allocation                      | 23.1%                                | 9.5%                                 | 9.0%                                 | 20.0%                                | 10.0%                                | 15.0%                                | 15.0%                                | 20.0%                                | 20.0%                                | 20.0%                                |
| Margin on total                           | 23.1%                                | 9.5%                                 | 9.0%                                 | 20.0%                                | 10.0%                                | 15.0%                                | 15.0%                                | 20.0%                                | 20.0%                                | 20.0%                                |
| Margin on variable                        | 23.1%                                | 9.5%                                 | 9.0%                                 | 20.0%                                | 10.0%                                | 15.0%                                | 15.0%                                | 20.0%                                | 20.0%                                | 20.0%                                |
| Margin on fixed                           | 0.90                                 | 0.99                                 | 0.99                                 | 0.59                                 | 0.52                                 | 0.54                                 | 0.53                                 | 0.54                                 | 0.53                                 | 0.50                                 |
| pricing check                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| <b>TOTAL OPERATIONAL total cost</b>       | <b>45.51</b>                         | <b>45.51</b>                         | <b>42.93</b>                         | <b>31.39</b>                         | <b>27.03</b>                         | <b>26.34</b>                         | <b>26.04</b>                         | <b>24.96</b>                         | <b>24.67</b>                         | <b>24.33</b>                         |

**SYSTEMS INTEGRATION**

|                                      |                      |             |       |       |       |       |       |       |       |       |       |
|--------------------------------------|----------------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| SI Development                       | Infrastructure       | Application | Price | 1.34  | 10.14 | 5.41  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Time needs to be updated with prices |                      |             |       |       |       |       |       |       |       |       |       |
| Ongoing SI Support                   | Total Cost           | 19.05       | 18.30 | 17.89 | 9.56  | 8.87  | 5.67  | 5.58  | 5.47  | 5.33  | 5.17  |
|                                      | Variable cost        | 0.00        | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
|                                      | Fixed Cost           | 19.05       | 18.30 | 17.89 | 9.56  | 8.87  | 5.67  | 5.58  | 5.47  | 5.33  | 5.17  |
|                                      | Fixed cost           | 19.05       | 18.30 | 17.89 | 9.56  | 8.87  | 5.67  | 5.58  | 5.47  | 5.33  | 5.17  |
|                                      | Over head allocation | 3.4%        | 5.5%  | 5.8%  | 7.3%  | 7.5%  | 8.6%  | 9.4%  | 9.9%  | 10.2% | 9.8%  |
|                                      | Margin on total      | 23.4%       | 27.9% | 6.2%  | 19.0% | 22.8% | 21.0% | 21.0% | 21.1% | 21.1% | 21.2% |
| pricing check                        |                      | 24.89       | 25.37 | 19.07 | 11.80 | 11.48 | 7.18  | 7.07  | 6.93  | 6.77  | 6.57  |
|                                      |                      | 0.00        | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |

**IMPLEMENTATION**

|                       |                                 |        |        |        |        |        |        |        |        |        |      |
|-----------------------|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|
| Implementation charge | Total Cost                      | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
|                       | Variable cost                   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
|                       | Fixed Cost                      | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
|                       | Head count cost                 | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
|                       | Fixed cost                      | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
|                       | Over head allocation            | 3.4%   | 5.5%   | 5.8%   | 7.3%   | 7.5%   | 8.6%   | 9.4%   | 9.9%   | 10.2%  |      |
|                       | Margin on total                 | 0.0%   | 0.0%   | 25.0%  | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   |      |
|                       | Margin on variable              | 0.0%   | 0.0%   | 25.0%  | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   |      |
|                       | Margin on fixed                 | 0.0%   | 0.0%   | 25.0%  | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   |      |
|                       | check - pricing, should be zero | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
| Capital costs         | Total cost                      | 3.72   | 12.42  | 2.44   | 0.26   | 0.38   | 0.70   | 0.70   | 0.69   | 0.67   | 0.64 |
|                       | Variable costs                  | 3.72   | 12.42  | 2.44   | 0.26   | 0.38   | 0.70   | 0.69   | 0.67   | 0.64   |      |
|                       | Number of counters              | 35,015 | 34,669 | 34,567 | 34,470 | 34,261 | 34,052 | 33,843 | 33,634 | 33,425 |      |
|                       | Fixed cost                      | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
|                       | Over head allocation            | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   |      |
|                       | Margin on total                 | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   |      |
|                       | Margin on variable              | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   |      |
|                       | Margin on fixed                 | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   | 5.0%   |      |
|                       | check - pricing, should be zero | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |      |
|                       | Total Overhead allocation       | 2.11   | 3.35   | 3.33   | 2.79   | 2.51   | 2.54   | 2.74   | 2.76   | 2.79   |      |
|                       | Overhead allocation             | 1.55   | 1.55   | 1.55   | 1.55   | 1.55   | 1.55   | 1.55   | 1.55   | 1.55   |      |
|                       | Risk                            | 0.56   | 1.80   | 1.78   | 1.24   | 0.96   | 1.00   | 1.19   | 1.22   | 1.24   |      |

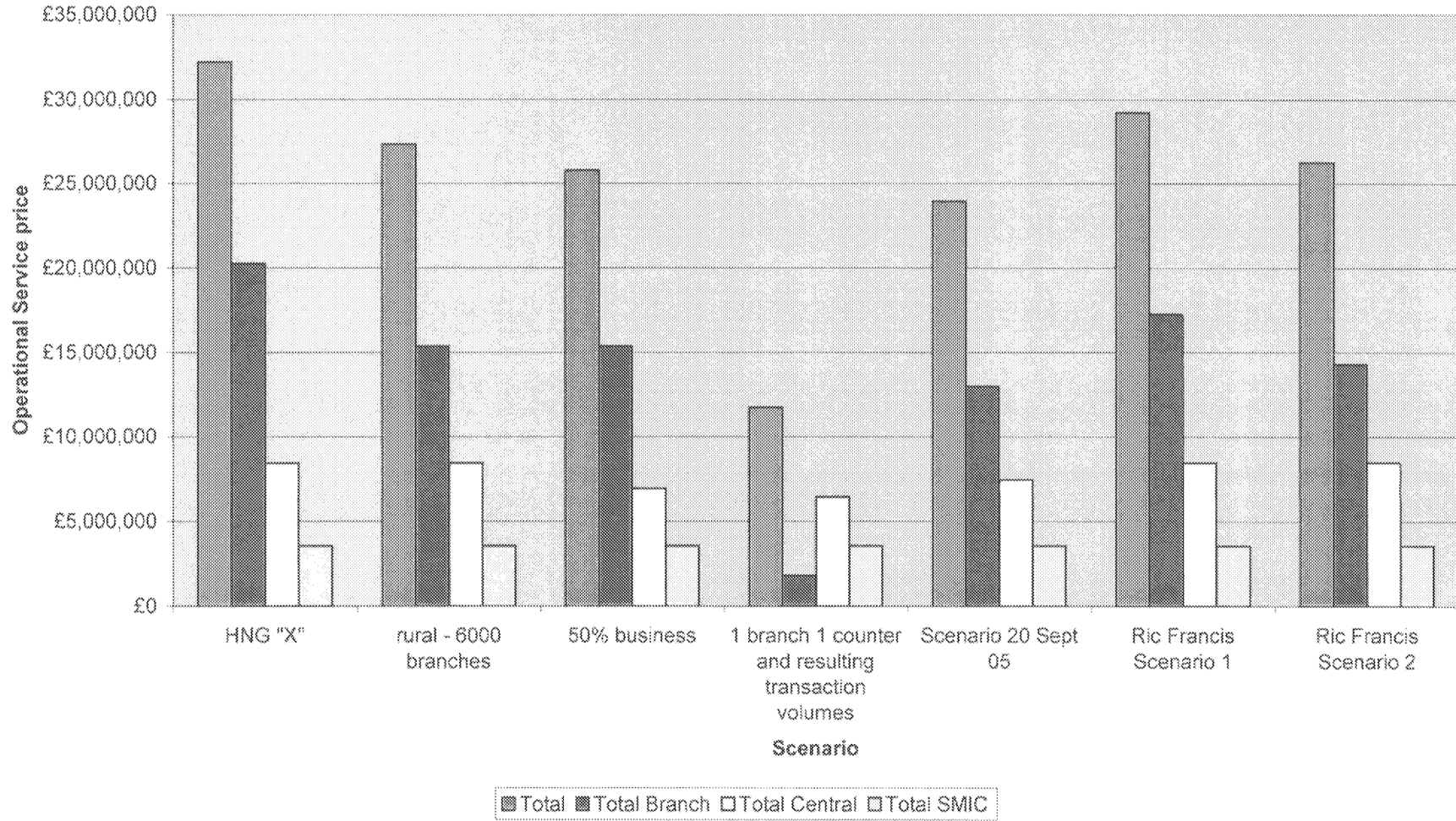
**FUJITSU SERVICES - CONFIDENTIAL**

|                             |                         | Y 06                                      | Y 07                                      | Y 08                                      | Y 09                                      | Y 10                                      | Y 11                                      | Y 12                                      | Y 13                                      | Y 14                                      | Y 15                                      |
|-----------------------------|-------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| <b>COST MODEL</b>           |                         |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
| <b>OPERATIONAL SERVICES</b> |                         |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
| Help Desk Service           | Total cost              | 2.42                                      | 1.73                                      | 1.75                                      | 1.39                                      | 1.29                                      | 1.19                                      | 1.14                                      | 1.08                                      | 1.06                                      | 1.02                                      |
|                             | Variable costs          | 2.32                                      | 1.63                                      | 1.65                                      | 1.29                                      | 1.19                                      | 1.09                                      | 1.04                                      | 0.98                                      | 0.96                                      | 0.92                                      |
| NOTES                       | Calls pa                | 176,310                                   | 181,475                                   | 181,686                                   | 124,531                                   | 127,884                                   | 131,200                                   | 134,405                                   | 137,738                                   | 141,119                                   | 144,172                                   |
|                             | Response SLA            | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      | 80% in 30sec current                      |
|                             | Call distribution       | Monday peak                               | Monday peak                               | Monday peak                               | Monday peak                               | Monday peak                               | Monday peak                               | Monday peak                               | Monday peak                               | Monday peak                               | Monday peak                               |
|                             | Fixed cost              | 0.10                                      | 0.10                                      | 0.10                                      | 0.10                                      | 0.10                                      | 0.10                                      | 0.10                                      | 0.10                                      | 0.10                                      | 0.10                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 34.1%                                     | 37.0%                                     | 36.0%                                     | 23.0%                                     | 28.6%                                     | 33.6%                                     | 35.8%                                     | 39.2%                                     | 39.9%                                     | 41.6%                                     |
|                             | Margin on variable      | 34.1%                                     | 37.0%                                     | 36.0%                                     | 23.0%                                     | 28.6%                                     | 33.6%                                     | 35.8%                                     | 39.2%                                     | 39.9%                                     | 41.6%                                     |
|                             | Margin on fixed pricing | 3.67                                      | 2.74                                      | 2.73                                      | 1.81                                      | 1.80                                      | 1.79                                      | 1.78                                      | 1.77                                      | 1.76                                      | 1.75                                      |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| Engineer Service (UK)       | Total cost              | 12.93                                     | 9.74                                      | 9.67                                      | 8.06                                      | 8.26                                      | 8.53                                      | 8.70                                      | 8.62                                      | 8.73                                      | 8.88                                      |
|                             | Variable cost           | 10.70                                     | 9.32                                      | 9.25                                      | 7.64                                      | 7.84                                      | 8.11                                      | 8.28                                      | 8.21                                      | 8.31                                      | 8.46                                      |
| NOTES                       | Number of counters      | 35,015                                    | 34,669                                    | 34,587                                    | 34,470                                    | 34,261                                    | 34,052                                    | 33,843                                    | 33,634                                    | 33,425                                    | 33,216                                    |
| NOTES                       | 4/8 hours               | next bus day                              | next bus day                              | next bus day                              | next bus day                              | next bus day                              | next bus day                              | next bus day                              | next bus day                              | next bus day                              | next bus day                              |
| NOTES                       | Calls per counter pa    | 1.62                                      | 1.73                                      | 1.74                                      | 1.76                                      | 1.84                                      | 1.93                                      | 2.01                                      | 2.09                                      | 2.18                                      | 2.26                                      |
| NOTES                       | % calls requiring spare | 85.6%                                     | 85.8%                                     | 87.0%                                     | 87.0%                                     | 87.0%                                     | 86.9%                                     | 87.0%                                     | 87.0%                                     | 87.0%                                     | 87.0%                                     |
|                             | Fixed cost              | 2.23                                      | 0.42                                      | 0.42                                      | 0.42                                      | 0.42                                      | 0.42                                      | 0.42                                      | 0.42                                      | 0.42                                      | 0.42                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 10.0%                                     | 12.0%                                     | 15.0%                                     | 15.0%                                     | 15.0%                                     | 15.0%                                     | 15.0%                                     | 15.8%                                     | 15.0%                                     | 15.0%                                     |
|                             | Margin on variable      | 10.0%                                     | 12.0%                                     | 15.0%                                     | 15.0%                                     | 15.0%                                     | 15.0%                                     | 15.0%                                     | 15.8%                                     | 15.0%                                     | 15.0%                                     |
|                             | Margin on fixed pricing | 14.36                                     | 11.07                                     | 11.38                                     | 9.48                                      | 9.71                                      | 10.04                                     | 10.23                                     | 10.24                                     | 10.27                                     | 10.44                                     |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| OBC - Branch Charge         | Total cost              | 0.39                                      | 0.40                                      | 0.34                                      | 0.11                                      | 0.11                                      | 0.10                                      | 0.09                                      | 0.07                                      | 0.06                                      | 0.06                                      |
|                             | Variable cost           | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
|                             | Calls per year          |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
|                             | Response SLA            |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
|                             | Process time            |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
|                             | Fixed cost              | 0.39                                      | 0.40                                      | 0.34                                      | 0.11                                      | 0.11                                      | 0.10                                      | 0.09                                      | 0.07                                      | 0.06                                      | 0.06                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 15.0%                                     | 25.0%                                     | 25.0%                                     | 35.0%                                     | 30.0%                                     | 35.0%                                     | 35.0%                                     | 35.0%                                     | 35.0%                                     | 35.0%                                     |
|                             | Margin on variable      | 15.0%                                     | 25.0%                                     | 25.0%                                     | 35.0%                                     | 30.0%                                     | 35.0%                                     | 35.0%                                     | 35.0%                                     | 35.0%                                     | 35.0%                                     |
|                             | Margin on fixed pricing | 0.45402                                   | 0.63                                      | 0.46                                      | 0.17                                      | 0.15                                      | 0.15                                      | 0.15                                      | 0.10                                      | 0.10                                      | 0.08                                      |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| Data Centre Operati         | Total cost              | 5.84                                      | 9.71                                      | 10.14                                     | 5.35                                      | 4.65                                      | 4.58                                      | 4.53                                      | 4.29                                      | 4.29                                      | 4.26                                      |
|                             | Variable cost           | 2.92                                      | 4.85                                      | 5.07                                      | 2.67                                      | 2.32                                      | 2.29                                      | 2.26                                      | 2.15                                      | 2.14                                      | 2.13                                      |
|                             | No of transactions      | as PAPER030                               | as PAPER030                               | as PAPER030                               | as PAPER030                               | as PAPER030                               | as PAPER030                               | as PAPER030                               | as PAPER030                               | as PAPER030                               | as PAPER030                               |
|                             | Availability            | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements | per current SLTs per current requirements |
|                             | No of Client interfaces | 2.92                                      | 4.85                                      | 5.07                                      | 2.67                                      | 2.32                                      | 2.29                                      | 2.26                                      | 2.15                                      | 2.14                                      | 2.13                                      |
|                             | Fixed cost              | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Over head allocation    | 46.0%                                     | 20.0%                                     | 20.0%                                     | 30.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     |
|                             | Margin on total         | 46.0%                                     | 20.0%                                     | 20.0%                                     | 30.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     |
|                             | Margin on variable      | 46.0%                                     | 20.0%                                     | 20.0%                                     | 30.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     |
|                             | Margin on fixed pricing | 10.82                                     | 12.14                                     | 12.68                                     | 7.64                                      | 8.20                                      | 8.10                                      | 8.03                                      | 7.72                                      | 7.71                                      | 5.68                                      |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| Network Service             | Total cost              | 12.37                                     | 11.93                                     | 8.95                                      | 6.78                                      | 6.05                                      | 5.70                                      | 5.49                                      | 5.10                                      | 4.98                                      | 4.84                                      |
|                             | Variable cost           | 8.69                                      | 6.93                                      | 5.46                                      | 4.45                                      | 3.85                                      | 3.59                                      | 3.48                                      | 3.37                                      | 3.25                                      | 3.11                                      |
| NOTES                       | Number of sites         | 14,534                                    | 14,366                                    | 14,149                                    | 13,918                                    | 13,687                                    | 13,687                                    | 13,687                                    | 13,687                                    | 13,687                                    | 13,687                                    |
| NOTES                       | Availability            | 99.64%                                    | 99.64%                                    | 99.77%                                    | 99.90%                                    | 99.99%                                    | 99.99%                                    | 99.99%                                    | 99.99%                                    | 99.99%                                    | 99.99%                                    |
| NOTES                       | ADSL coverage           | 86.58%                                    | 86.80%                                    | 97.39%                                    | 97.56%                                    | 97.73%                                    | 98.27%                                    | 98.45%                                    | 98.82%                                    | 98.79%                                    | 98.96%                                    |
| NOTES                       | Bandwidth G/bytes per   | 13,312                                    | 13,312                                    | 6,556                                     | 6,556                                     | 6,556                                     | 6,556                                     | 6,556                                     | 6,556                                     | 6,556                                     | 6,556                                     |
|                             | Fixed cost              | 3.68                                      | 5.00                                      | 3.48                                      | 2.32                                      | 2.20                                      | 2.11                                      | 2.01                                      | 1.74                                      | 1.73                                      | 1.72                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 33.1%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     |
|                             | Margin on variable      | 33.1%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     | 11.0%                                     |
|                             | Margin on fixed pricing | 18.50                                     | 13.41                                     | 10.05                                     | 7.81                                      | 8.40                                      | 8.40                                      | 8.16                                      | 5.73                                      | 5.60                                      | 5.43                                      |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| Systems Manager             | Total cost              | 3.35                                      | 3.45                                      | 3.55                                      | 2.53                                      | 2.44                                      | 2.51                                      | 2.42                                      | 2.30                                      | 2.27                                      | 2.21                                      |
|                             | Variable cost           | 2.85                                      | 2.93                                      | 3.03                                      | 2.00                                      | 1.92                                      | 1.98                                      | 1.90                                      | 1.78                                      | 1.75                                      | 1.68                                      |
|                             | Events received per mi  | 50,000                                    | 49,250                                    | 49,250                                    | 31,000                                    | 30,250                                    | 29,500                                    | 28,000                                    | 27,250                                    | 26,500                                    | 25,000                                    |
|                             | Response SLA            | 30 mins                                   | 30 mins                                   | 30 mins                                   | 30 mins                                   | 30 mins                                   | 30 mins                                   | 30 mins                                   | 30 mins                                   | 30 mins                                   | 30 mins                                   |
|                             | Hours of cover          | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  |
|                             | Fixed cost              | 0.49                                      | 0.52                                      | 0.52                                      | 0.52                                      | 0.52                                      | 0.52                                      | 0.52                                      | 0.52                                      | 0.52                                      | 0.52                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 52.0%                                     | 35.0%                                     | 25.0%                                     | 35.0%                                     | 28.0%                                     | 27.0%                                     | 23.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     |
|                             | Margin on variable      | 52.0%                                     | 35.0%                                     | 25.0%                                     | 35.0%                                     | 28.0%                                     | 27.0%                                     | 23.0%                                     | 25.0%                                     | 25.0%                                     | 25.0%                                     |
|                             | Margin on fixed pricing | 6.97                                      | 5.31                                      | 4.74                                      | 3.89                                      | 3.39                                      | 3.43                                      | 3.15                                      | 3.07                                      | 3.02                                      | 2.94                                      |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| Product Support Serv        | Total cost              | 2.93                                      | 3.19                                      | 3.20                                      | 2.78                                      | 0.39                                      | 0.38                                      | 0.38                                      | 0.36                                      | 0.36                                      | 0.36                                      |
|                             | Variable cost           | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
|                             | Fixed cost              | 2.93                                      | 3.19                                      | 3.20                                      | 2.78                                      | 0.39                                      | 0.38                                      | 0.38                                      | 0.36                                      | 0.36                                      | 0.36                                      |
|                             | Software (Escher)       | 0.62                                      | 0.87                                      | 0.71                                      | 0.57                                      | 0.39                                      | 0.38                                      | 0.38                                      | 0.36                                      | 0.36                                      | 0.36                                      |
|                             | IP SW maint             | 2.32                                      | 2.32                                      | 2.49                                      | 2.21                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
|                             | Fixed cost              | 2.93                                      | 3.19                                      | 3.20                                      | 2.78                                      | 0.39                                      | 0.38                                      | 0.38                                      | 0.36                                      | 0.36                                      | 0.36                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 14.2%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     |
|                             | Margin on variable      | 14.2%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     |
|                             | Margin on fixed pricing | 3.42                                      | 3.94                                      | 3.56                                      | 3.08                                      | 0.43                                      | 0.42                                      | 0.42                                      | 0.40                                      | 0.40                                      | 0.40                                      |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| Reference Data Mar          | Total cost              | 0.54                                      | 0.52                                      | 0.59                                      | 0.49                                      | 0.41                                      | 0.34                                      | 0.33                                      | 0.32                                      | 0.31                                      | 0.29                                      |
|                             | Variable cost           | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
|                             | Quantity of change      |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
|                             | Response SLA            |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
|                             | Process time/ Headcount |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |                                           |
|                             | Fixed cost              | 0.54                                      | 0.52                                      | 0.59                                      | 0.49                                      | 0.41                                      | 0.34                                      | 0.33                                      | 0.32                                      | 0.31                                      | 0.29                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 20.0%                                     | 29.0%                                     | 19.0%                                     | 31.1%                                     | 39.6%                                     | 46.0%                                     | 46.2%                                     | 46.8%                                     | 47.0%                                     | 47.8%                                     |
|                             | Margin on variable      | 0.67                                      | 0.73                                      | 0.73                                      | 0.71                                      | 0.69                                      | 0.62                                      | 0.62                                      | 0.60                                      | 0.59                                      | 0.56                                      |
|                             |                         | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      | 0.00                                      |
| Third Line Software S       | Total cost              | 1.77                                      | 1.60                                      | 1.49                                      | 1.35                                      | 1.05                                      | 1.02                                      | 1.00                                      | 0.94                                      | 0.90                                      | 0.82                                      |
|                             | Variable cost           | 1.40                                      | 1.24                                      | 1.12                                      | 0.98                                      | 0.69                                      | 0.66                                      | 0.63                                      | 0.57                                      | 0.54                                      | 0.45                                      |
|                             | Open Calls per month    | 600                                       | 600                                       | 600                                       | 350                                       | 350                                       | 350                                       | 350                                       | 350                                       | 350                                       | 350                                       |
|                             | Hours of cover          | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  | 24x7x365                                  |
|                             | Technology              | Horizon                                   | Horizon                                   | Horizon/NGS                               | NGS                                       | NGS                                       | NGS                                       | NGS                                       | NGS                                       | NGS                                       | NGS                                       |
|                             | Fixed cost              | 0.37                                      | 0.37                                      | 0.37                                      | 0.37                                      | 0.37                                      | 0.37                                      | 0.37                                      | 0.37                                      | 0.37                                      | 0.37                                      |
|                             | Over head allocation    | 3.4%                                      | 5.5%                                      | 5.8%                                      | 7.3%                                      | 7.5%                                      | 8.6%                                      | 9.4%                                      | 9.9%                                      | 10.2%                                     | 9.8%                                      |
|                             | Margin on total         | 27.4%                                     | 5.0%                                      | 7.0%                                      | 15.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 10.0%                                     | 15.0%                                     | 10.0%                                     |

|                        |                                           |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|------------------------|-------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|                        | pricing check                             | 2.4                                  | 1.7                                  | 1.6                                  | 1.6                                  | 1.2                                  | 1.1                                  | 1.1                                  | 1.0                                  | 1.1                                  | 0.9                                  |
| Management Inform      | Total cost                                | 0.38                                 | 0.48                                 | 0.48                                 | 0.28                                 | 0.28                                 | 0.27                                 | 0.27                                 | 0.26                                 | 0.19                                 | 0.18                                 |
|                        | Variable cost                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Number of reports                         | per current obligation               | per current obligation               | per current obligation               | per current obligation               | per current obligation               | per current obligation               | per current obligation               | per current obligation               | per current obligation               | per current obligation               |
|                        | Frequency of reports                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Process time/ Headcount                   |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Fixed cost                                | 0.38                                 | 0.48                                 | 0.48                                 | 0.28                                 | 0.28                                 | 0.27                                 | 0.27                                 | 0.26                                 | 0.19                                 | 0.18                                 |
|                        | Over head allocation                      | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
|                        | Margin on total                           | 32.7%                                | 15.0%                                | 15.0%                                | 30.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 30.0%                                |
|                        | pricing check                             | 0.57                                 | 0.57                                 | 0.57                                 | 0.40                                 | 0.37                                 | 0.37                                 | 0.36                                 | 0.35                                 | 0.25                                 | 0.25                                 |
| Service Management     | Total cost                                | 1.68                                 | 1.65                                 | 1.65                                 | 1.58                                 | 1.43                                 | 1.06                                 | 1.04                                 | 1.00                                 | 0.92                                 | 0.85                                 |
|                        | Variable cost                             | 1.24                                 | 1.21                                 | 1.21                                 | 1.14                                 | 0.99                                 | 0.62                                 | 0.61                                 | 0.56                                 | 0.48                                 | 0.42                                 |
|                        | NS service provision (breadth of service) | Horizon                              | Horizon                              | Horizon/NGS                          | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  |
|                        | Complexity of customer                    | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation | CS Governance per current obligation |
|                        | Frequency of reporting                    |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Fixed cost                                | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 | 0.44                                 |
|                        | Over head allocation                      | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
|                        | Margin on total                           | 27.6%                                | 25.0%                                | 25.0%                                | 22.0%                                | 20.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 35.0%                                |
|                        | pricing check                             | 2.32                                 | 2.19                                 | 2.20                                 | 2.03                                 | 1.79                                 | 1.41                                 | 1.39                                 | 1.33                                 | 1.22                                 | 1.32                                 |
| Reconciliation Service | Total cost                                | 0.22                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.20                                 | 0.19                                 | 0.19                                 | 0.18                                 |
|                        | Variable cost                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Quantity of requests                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Response SLA                              |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Process time/ Headcount                   |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Fixed cost                                | 0.22                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.21                                 | 0.20                                 | 0.19                                 | 0.19                                 | 0.18                                 |
|                        | Over head allocation                      | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
|                        | Margin on total                           | 10.0%                                | 25.0%                                | 25.0%                                | 20.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 25.0%                                | 20.0%                                |
|                        | pricing check                             | 0.24                                 | 0.28                                 | 0.28                                 | 0.26                                 | 0.28                                 | 0.27                                 | 0.27                                 | 0.26                                 | 0.25                                 | 0.22                                 |
| Security Management    | Total cost                                | 0.69                                 | 0.89                                 | 0.90                                 | 0.47                                 | 0.47                                 | 0.46                                 | 0.45                                 | 0.43                                 | 0.42                                 | 0.40                                 |
|                        | Variable cost                             | 0.49                                 | 0.69                                 | 0.69                                 | 0.27                                 | 0.26                                 | 0.25                                 | 0.25                                 | 0.23                                 | 0.22                                 | 0.19                                 |
|                        | Security policy                           | Horizon                              | Horizon                              | Horizon/NGS                          | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  | NGS                                  |
|                        | Audit queries                             | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   | 750 / annum per current obligation   |
|                        | Process time/ Headcount                   |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Fixed cost                                | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 | 0.20                                 |
|                        | Over head allocation                      | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
|                        | Margin on total                           | 23.1%                                | 9.5%                                 | 9.0%                                 | 20.0%                                | 10.0%                                | 15.0%                                | 15.0%                                | 20.0%                                | 20.0%                                | 20.0%                                |
|                        | Margin on variable                        | 23.1%                                | 9.5%                                 | 9.0%                                 | 20.0%                                | 10.0%                                | 15.0%                                | 15.0%                                | 20.0%                                | 20.0%                                | 20.0%                                |
|                        | Margin on fixed                           | 23.1%                                | 9.5%                                 | 9.0%                                 | 20.0%                                | 10.0%                                | 15.0%                                | 15.0%                                | 20.0%                                | 20.0%                                | 20.0%                                |
|                        | pricing check                             | 0.90                                 | 0.99                                 | 0.99                                 | 0.59                                 | 0.52                                 | 0.54                                 | 0.54                                 | 0.54                                 | 0.53                                 | 0.50                                 |
| TOTAL OPERATIONAL      | total cost                                | 45.51                                | 45.51                                | 42.93                                | 31.39                                | 27.03                                | 26.34                                | 26.04                                | 24.96                                | 24.67                                | 24.33                                |
| SYSTEMS INTEGRATION    |                                           |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
| SI Development         | Infrastructure                            |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Application Price                         | 1.34                                 | 10.14                                | 5.41                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| Ongoing SI Support     | Total Cost                                | 19.05                                | 18.30                                | 17.89                                | 9.56                                 | 8.87                                 | 5.67                                 | 5.58                                 | 5.47                                 | 5.33                                 | 5.17                                 |
|                        | Variable cost                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Fixed cost                                |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Total Support environm                    | 19.05                                | 18.30                                | 17.89                                | 9.56                                 | 8.87                                 | 5.67                                 | 5.58                                 | 5.47                                 | 5.33                                 | 5.17                                 |
|                        | Fixed cost                                | 19.05                                | 18.30                                | 17.89                                | 9.56                                 | 8.87                                 | 5.67                                 | 5.58                                 | 5.47                                 | 5.33                                 | 5.17                                 |
|                        | Over head allocation                      | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
|                        | Margin on total                           | 23.4%                                | 27.9%                                | 6.2%                                 | 19.0%                                | 22.8%                                | 21.0%                                | 21.0%                                | 21.1%                                | 21.1%                                | 21.2%                                |
|                        | pricing check                             | 24.89                                | 25.37                                | 19.97                                | 11.80                                | 11.48                                | 7.18                                 | 7.07                                 | 6.93                                 | 6.77                                 | 6.57                                 |
| IMPLEMENTATION         |                                           |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
| Implementation char    | Total Cost                                | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Variable cost                             | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Fixed Cost                                |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Head count cost                           | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Fixed cost                                | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Over head allocation                      | 3.4%                                 | 5.5%                                 | 5.8%                                 | 7.3%                                 | 7.5%                                 | 8.6%                                 | 9.4%                                 | 9.9%                                 | 10.2%                                | 9.8%                                 |
|                        | Margin on total                           | 0.0%                                 | 0.0%                                 | 25.0%                                | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 |
|                        | Margin on variable                        | 0.0%                                 | 0.0%                                 | 25.0%                                | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 |
|                        | Margin on fixed                           | 0.0%                                 | 0.0%                                 | 25.0%                                | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 | 0.0%                                 |
|                        | check - pricing, should be zero           | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
| Capital costs          | Total cost                                | 3.72                                 | 12.42                                | 2.44                                 | 0.26                                 | 0.38                                 | 0.70                                 | 0.70                                 | 0.69                                 | 0.67                                 | 0.64                                 |
|                        | Variable costs                            | 3.72                                 | 12.42                                | 2.44                                 | 0.26                                 | 0.38                                 | 0.70                                 | 0.70                                 | 0.69                                 | 0.67                                 | 0.64                                 |
|                        | Number of counters                        | 35,015                               | 34,669                               | 34,587                               | 34,470                               | 34,261                               | 34,052                               | 33,843                               | 33,634                               | 33,425                               | 33,216                               |
|                        | Fixed cost                                | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Over head allocation                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |                                      |
|                        | Margin on total                           | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 |
|                        | Margin on variable                        | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 |
|                        | Margin on fixed                           | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 | 5.0%                                 |
|                        | check - pricing, should be zero           | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 | 0.00                                 |
|                        | Total Overhead allocati                   | 2.11                                 | 3.35                                 | 3.33                                 | 2.79                                 | 2.51                                 | 2.54                                 | 2.74                                 | 2.76                                 | 2.79                                 | 2.66                                 |
|                        | Overhead allocation                       | 1.55                                 | 1.55                                 | 1.55                                 | 1.55                                 | 1.55                                 | 1.55                                 | 1.55                                 | 1.55                                 | 1.55                                 | 1.55                                 |
|                        | Risk                                      | 0.56                                 | 1.80                                 | 1.78                                 | 1.24                                 | 0.96                                 | 1.00                                 | 1.19                                 | 1.22                                 | 1.24                                 | 1.12                                 |



Fixed Variable Price Scenarios - 2011/12



~~2/11/05~~  
2/11/05

Services SMIC rural marginal costing .xls

| Title                                       |                        | 05/06        | 06/07        | 07/08        | 08/09        | 09/10        | 10/11        | 11/12        | 12/13        | 13/14        | 14/15        |
|---------------------------------------------|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Marginal cost (price)                       |                        |              |              |              |              |              |              |              |              |              |              |
| Branch                                      | number of sites        | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       |
|                                             | number of counters     | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       | -5,000       |
|                                             | (av counters per site) | 1            | 1            | 1            | 1            | 1            | 1            | 1            | 1            | 1            | 1            |
| Central                                     | % of transactions      | -1.00%       | -1.00%       | -1.00%       | -1.00%       | -1.00%       | -1.00%       | -1.00%       | -1.00%       | -1.00%       | -1.00%       |
|                                             | number of services     | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Branch                                      | Variable Sites         | -£ 4,983,341 | -£ 3,256,244 | -£ 2,723,915 | -£ 2,181,131 | -£ 1,914,096 | -£ 1,732,527 | -£ 1,683,078 | -£ 1,623,527 | -£ 1,548,802 | -£ 1,485,001 |
| Branch                                      | Variable counters      | -£ 3,049,386 | -£ 2,550,659 | -£ 2,530,382 | -£ 1,995,332 | -£ 1,976,274 | -£ 2,041,315 | -£ 2,043,942 | -£ 2,039,337 | -£ 2,048,494 | -£ 2,072,573 |
|                                             | Fixed                  | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
| Central                                     | Variable Transactions  | -£ 36,075    | -£ 40,454    | -£ 42,253    | -£ 25,463    | -£ 20,654    | -£ 20,342    | -£ 20,114    | -£ 19,069    | -£ 19,045    | -£ 18,922    |
|                                             | Variable Service       | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
|                                             | Fixed                  | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
| Smic                                        | Fixed                  | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
| Total                                       |                        | -£ 8,068,803 | -£ 5,847,357 | -£ 5,296,560 | -£ 4,201,926 | -£ 3,911,024 | -£ 3,794,184 | -£ 3,747,134 | -£ 3,681,934 | -£ 3,616,341 | -£ 3,576,497 |
| Total Branch                                |                        | -£ 8,032,728 | -£ 5,806,903 | -£ 5,254,307 | -£ 4,176,463 | -£ 3,890,370 | -£ 3,773,842 | -£ 3,727,020 | -£ 3,662,864 | -£ 3,597,296 | -£ 3,557,575 |
| Total Central                               |                        | -£ 36,075    | -£ 40,454    | -£ 42,253    | -£ 25,463    | -£ 20,654    | -£ 20,342    | -£ 20,114    | -£ 19,069    | -£ 19,045    | -£ 18,922    |
| Total SMIC                                  |                        | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
| % of total saved                            |                        |              |              |              |              |              |              |              |              |              |              |
| BRANCH FIXED                                |                        | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
| BRANCH VARIABLE                             |                        | -£ 8,032,728 | -£ 5,806,903 | -£ 5,254,307 | -£ 4,176,463 | -£ 3,890,370 | -£ 3,773,842 | -£ 3,727,020 | -£ 3,662,864 | -£ 3,597,296 | -£ 3,557,575 |
| CENTRAL VARIABLE                            |                        | -£ 36,075    | -£ 40,454    | -£ 42,253    | -£ 25,463    | -£ 20,654    | -£ 20,342    | -£ 20,114    | -£ 19,069    | -£ 19,045    | -£ 18,922    |
| CENTRAL FIXED                               |                        | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
| SMIC                                        |                        | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          | £ -          |
| RPI                                         |                        | 103.50%      | 105.57%      | 107.68%      | 109.84%      | 112.03%      | 114.27%      | 116.56%      | 118.89%      | 121.27%      | 123.69%      |
| VAT                                         | 15.23%                 |              |              |              |              |              |              |              |              |              |              |
| TOTAL MARGINAL COST (INCLUDING VAT AND RPI) |                        | -£ 9,622,683 | -£ 7,112,902 | -£ 6,571,754 | -£ 5,317,849 | -£ 5,048,685 | -£ 4,995,815 | -£ 5,032,540 | -£ 5,043,874 | -£ 5,053,099 | -£ 5,097,374 |