

POCL Agreement Dated 24th May 1999

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1. Letter Agreement - Letter dated 24 May 1999 from Stuart Sweetman of POCL to Keith Todd of ICL (2 schedules attached)
2. Heads of Agreement - Between POCL, Pathway and ICL dated May 1999 (version reference 060599.2352)
3. Fujitsu Guarantee - Guarantee dated 24th May 1999





Keith Todd Esq
ICL plc
26 Finsbury Sq
London
EC2A 1DS

Post Office Counters Ltd

24 May 1999

Dear Mr Todd

POCL AUTOMATION PROJECT

POCL, ICL Pathway, ICL and DSS have been negotiating, with the assistance of HM Treasury, the withdrawal of DSS from further involvement in the Project and certain material amendments to the existing contracts between the parties.

Most recently, negotiations have proceeded on the basis that the Project will be amended to introduce a new service, the Benefits Payment Service or BPS, and the draft Heads of Agreement dated May 1999 between POCL, ICL Pathway and ICL (document reference 207738/10582 CA991020.027 JRT 060599.2352) (the "Heads") reflect that position.

Ministers have decided that the Project will be scaled down and completed on the basis that the claims of each party against the others will be settled on the following terms:

1. The Heads as amended by Schedule 1 to this letter take effect from the date hereof.
2. ICL Pathway will complete its obligations under the Related Agreements, as the same are amended by the Heads, and as the Related Agreements and the Heads are further amended by this letter.
3. POCL will pay ICL Pathway the sums set out in Schedule 2 to this letter in the manner and at the times set out in Schedule 2.
4. ICL Pathway will provide services under the Related Agreements (as amended) until 31st March 2005 (notwithstanding any later date that may appear in the Related Agreements or the Heads). On cessation of

Post Office Counters Ltd
King Edward Building
King Edward Street
London
EC1A 1AA
Telephone: **GRO**
Facsimile: **GRO**

Post Office Counters Ltd Registered in England
No. 7134340 Registered Office King Edward Building,
King Edward Street London EC1A 1AA

the services, POCL will have the option, subject to due payment of all sums payable up to that date, to purchase from ICL Pathway for the sum of £1 the Project Assets (using the definition of that term in the Heads which is expressed to be "ICL's view"), such Project Assets to be sold "as is", free of encumbrances including perpetual royalty free licences of all IPRs in accordance with the Related Agreements but with all express or implied warranties and conditions excluded to the full extent permitted by law.

5. In parallel with performance of ICL Pathway's obligations under 2 above, and following our discussions with you, we wish to confirm our desire to use the Core System for network banking and the provision of services (via smart cards) for Modern Government. We will therefore work with you to revive and continue the discussions on the Public Private Partnership which we have previously considered. It is hoped that we can together develop a business strategy in these areas which we can deliver through appropriate arrangements under a Public Private Partnership in order to leverage the use of the Core System and develop to the full its potential for the delivery of electronic business services.
6. ICL Pathway shall provide such services as may be agreed by ICL Pathway and POCL for Royal Mail, DVLA, NAS, Girobank and the Co-Op (and other POCL clients as may be agreed) at marginal running costs.
7. This letter agreement will come into effect on signature and will remain binding on all parties unless and until replaced by a comprehensive codification of the relevant terms of the Related Agreements, the Heads and this letter (a "Codified Agreement") which is agreed between all the parties thereto. The parties will use reasonable endeavours to produce and agree such a codification by 16 July 1999. This provision shall be without prejudice to any change to this letter, the Heads or the Related Agreements which is agreed between the relevant parties in accordance with the terms of the document in question.
8. In the event of any disagreement concerning the terms to be included in the Codified Agreement, POCL and ICL Pathway will negotiate in good faith to reach a resolution of the matter in question. If the Managing Director of POCL (or any equivalent executive) and the Commercial Director of ICL are unable to reach resolution of the matter at their initial meeting to discuss the same they shall invite an expert to give guidance and act as a facilitator. Where the matter in question is of a programme or technical nature, the expert shall be Peter Copping of PA Consulting Group (or, if he is not available, a person chosen in accordance with paras. 6.2 and 6.3 of Schedule 6 to the Heads). Where the matter is of any other nature the expert shall be an independent City solicitor to be agreed between ICL Pathway and POCL within 7 days of the date of this letter or, in default of agreement, to be appointed at the request of either of them by the President for the time being of the Law Society. ICL Pathway and

POCL do not expect that the identification and notification of the disagreement, reference of the disagreement to the expert and obtaining his guidance should take longer than 7 days.

If the parties have used all reasonable endeavours to agree the terms of the Codified Agreement, including pursuing the dispute resolution procedure above, but by 16 July 1999 material issues still remain unresolved, POCL shall have the right (to be exercised by a written notice served on ICL Pathway by 30 July 1999) to terminate the agreement contained in this letter including, for the avoidance of doubt, the Heads and the Related Agreements as amended. Where POCL does not exercise this right of termination this letter shall continue in force. However, this shall not prevent POCL and ICL Pathway from agreeing to replace this letter in its entirety with an incomplete Codified Agreement which incorporates those matters which have been agreed and, as regards matters which have not been agreed, carries forward the relevant parts of the agreement contained in this letter. In the event that POCL does exercise its right of termination pursuant to this paragraph, it will make a payment of £150 million to ICL Pathway less the sum of £68 million referred to in Schedule 2, paragraph 1 if, at the date of such termination, the sum of £68 million has already been paid to ICL Pathway.

9. The terms of this letter shall be in full and final settlement of all claims and counterclaims which any of POCL, ICL and ICL Pathway (the "Parties") may have against any other of them under or in connection with the Related Agreements arising from or in connection with acts or events which occurred or should have occurred, or statements that were made on or prior to the date of this letter (whether or not such have been made the subject of a claim or counterclaim at the date hereof). Each of the parties hereby waives any rights whatsoever which it might have against any other Party arising from or in connection with such acts, events or statements.

Words defined directly or by reference in the Heads bear the same meaning in this letter, unless the context otherwise requires. In the event of any conflict between the terms of this letter (including its schedules), the Heads, and any of the Related Agreements, the order of precedence shall be as follows (and so that the document listed earlier prevails over the document listed later);

This letter (including its schedules);

The Heads;

The Related Agreements;

Any amendment to this letter shall, to be valid, be made in writing under the hands of the signatories hereto or persons holding equivalent positions in the department, agency or company in question.

In the event of any disagreement concerning the terms of, or arising under this letter, the Heads or the Related Agreements, the Parties or such of them as are in disagreement, shall negotiate in good faith to reach an amicable resolution of the matter in question, but in default of resolution within a reasonable

period any relevant Party (that is a Party having a direct interest in the matter in question) may apply to the Courts of England & Wales for the matter to be resolved in accordance with English law. This provision shall be without prejudice to the specific provision for the resolution of disputes relating to Acceptance which is contained in the Heads and the provision in paragraph 8 as to the resolution of disagreements concerning terms to be included in the Codified Agreement.

For the sake of completeness please confirm your agreement to the above matters by signing the attached photocopy.

Yours sincerely

On original:

Signed for and on behalf of the
Post Office Counters Ltd

By: **GRO**

Name: *S. J. SWEETMAN*

Title: *Managing Director*

On photocopy:

We hereby agree the terms of the above letter

GRO

For and on behalf of ICL Pathway Limited
GRO

For and on behalf of ICL Pathway Limited

SCHEDULE 1

Incorporate only the paragraphs, paragraphs of Schedules and Annexes to Schedules, of the Heads listed in column 1, subject to the amendments set out in column 2. For the avoidance of doubt, ignore all other paragraphs, paragraphs of Schedules and Annexes to Schedules.

Paragraphs and paragraphs of Schedules of the Heads:	Amendments:
Recitals	Delete: recital 5
1 ICL view	Delete: POCL view
2	
4	Delete all and replace with the following: "The Effective Date shall be the date that this letter agreement is countersigned by ICL and ICL Pathway."
5.3 POCL view	Delete: "and the Benefit Payment Service including, inter alia, as to the specification, development" and replace with "including"
5.4 POCL view	Delete "Updated POCL Agreement" (in the second line only) and replace with "Codified Agreement"; add after the words "shall apply" the following "(save that POCL and Pathway release all obligations and waive all rights they may have in respect of each other under the Authorities Agreement and the POCL Agreement in respect of BES, PAS and CMS)" and delete "[and has become unconditional]"
6	Delete "Schedule 4." and replace with "this letter agreement."
7	
8	
9	Delete "Schedule 7" and replace with "the terms of this letter agreement."
11.1, 11.2	
13.1	Delete: "[by 31 st December 1999]" and replace with "so as not to delay Acceptance of the Core System Release."
13.2	

14.2, 14.3	
16	
Schedule 1	Delete the definitions of "POCL Account Service", "Post Office Account", "Post Office Smartcard" and "Post Office Smartcard Management Service". Delete references to DSS in definition of "Release Authorisation Board".
Schedule 4: Annex 1 Annex 3 Annex 4	Delete Annex 4 except to the extent that it applies to Orderbook transactions, girocheque transactions and OBCS. Add forecast transaction volumes for EPOSS and APS as set out in the most recent Workload Compendium adjusted to reflect reduced footfall in post offices resulting from the elimination of the Benefit Payment Card
Schedule 5: Paragraphs as follows: 1.1.1 ICL view 1.1.2 1.2 3.1 3.2 3.6	Delete: POCL view. Continue end of paragraph 1.1.1. to read "...and the BES software code shall be stripped out of NR2 at no additional cost to POCL." Delete all under the heading "Further Releases" and replace with the following: "Further releases of Core System software shall be provided by Pathway (by way of upgrades to CSR and/or CSR+) either: - on the basis of appropriate time and material charges (as set out in paragraph 20.1 of Schedule A06 of the Authorities Agreement which shall be expanded to include Pathway's rates for senior management and consultants and to clarify that all expenses incurred by Pathway in connection with such further releases shall be paid by POCL) which shall be invoiced monthly in arrears; or - for a fixed price to be agreed (on payment terms to be agreed), which shall not be audited;

	<p>as elected by POCL, provided that payment is made by POCL within 30 days of receipt of invoice and any such further releases are introduced through the change control process set out in the Related Agreements.”</p>
<p>Schedule 6:</p> <p>Paragraphs as follows:</p> <p>1.1 1.2 2 3.1 3.2 3.4 3.5 4 6 7</p>	<p>Schedule 6 shall be amended to refer to Acceptance of the Core System Release only</p> <p>Delete: 1.1 (ii)</p> <p>Link second and third sentences by insertion of the words “...provided always that..”</p> <p>Amend paragraph 3.4 such that Schedule C5 of the Authorities Agreement (liquidated damages to a maximum of 13 weeks delay) shall apply to Acceptance not being achieved by 30 September 1999 and, in addition to the CS Completion Date not being achieved by 31 March 2001 (as such date is adjusted to reflect any delay in Acceptance), in both cases where delay is due to Default by ICL Pathway.</p> <p>Delete: 4(i)</p>
<p>Schedule 7:</p> <p>Paragraphs as follows:</p> <p>1.1 1.2 1.3 1.5 2.1 3</p>	<p>Amend paragraph 3.1 to read “If Acceptance or Roll Out of the Core System is changed...”</p> <p>Delete paragraphs: 3.1.1 (ii), (iii) and (iv) and paragraph 3.1.2.</p> <p>Amend paragraph 3.1.3 to read as follows: “To the extent that compensation is not payable by POCL under paragraph 3.1.1 of Schedule 7, or liquidated damages are not payable by Pathway under paragraph 3.4 of Schedule 6, costs shall lie where they fall.”</p>

<p>4.1 Annex A</p>	
<p>Schedule 8: Paragraphs as follows: 5.1</p>	<p>Incorporate definition of "CS Completion Date" and ICL view of definition of "Project Assets" only subject to deleting all references to BPS. Delete remainder of paragraph 5.1</p>
<p>Schedule 10: All paragraphs.</p>	<p>Amend recital 3 such that "the Agreement" shall be the agreement set out in this letter.</p> <p>Replace paragraph 1.2 with</p> <p>1.2 On the date of execution of the Updated POCL Agreement, the Guarantor shall execute a guarantee in the same form as this Deed, mutatis mutandis, relating to the obligations of Pathway and shall deliver the same to POCL on that date together with a legal opinion of a Japanese law firm in a form reasonably acceptable to POCL confirming that such guarantee has been duly authorised and validly executed and that the Guarantor has the capacity to enter into an agreement governed by English law.</p>
<p>Schedule 11:</p>	<p>Replace with form of legal opinion (document reference 207738/10582 CA 991030.269 PKWL 190499.2255).</p>

GRO **GRO**

SCHEDULE 2**Payment Schedule**1. Capital Sum Payments

- 1.1 ICL Pathway shall be paid a Capital Sum of £480 million. The Capital Sum is to be paid in four equal Progress Payments, subject to retention described below, each to be paid upon the later to occur of (i) achieving the Completion of Roll-Out to the cumulative number of Post Offices set out below and (ii) the date set out opposite the cumulative number of Post Offices:

Cumulative number of Post Offices completed	Date
1,800	1/11/1999
6,000	1/5/2000
12,000	1/11/2000
The number of post offices to achieve CS Completion Date	1/3/2001

A further £68 million (in addition to the £480 million described above) will be paid to ICL Pathway on Acceptance of the Core System.

Retention of 25% shall be withheld from each Progress Payment.

Upon achieving approval by the Release Authorisation Board of CSR+ (as referred to in Schedule 5 of the Heads), the sums retained on the first two Progress Payments ("the First Retention Sum") shall be converted into an availability fee ("the First Availability Fee") to be paid as described below.

At the end of each calendar month following the later to occur of (i) conversion of the First Retention Sum or (ii) 1 January 2001, POCL shall pay to ICL Pathway in respect thereof an amount equal to the First Retention Sum divided by the lesser of 48 and the number of months from the date of such conversion to 31 March 2005 until the full amount of the First Retention Sum is paid.

Following the first period of three consecutive months occurring after CS Completion Date during which in each month ICL Pathway shall have achieved service levels which relate to the performance of (as opposed to the operation of) the Core System which exceed the Termination Review Thresholds (as referred to in Schedule A8 of the Authorities Agreement) the sums retained on the third and fourth Progress Payments (the "Second Retention Sum") shall be converted into a further availability fee ("the Second Availability Fee").

At the end of each calendar month following such conversion of the Second Retention Sum, POCL shall pay to ICL Pathway in respect thereof an amount equal to the Second Retention Sum divided by the lower of 48 and the number of months from the date of such conversion to 31 March 2005 until the full amount of the Second Retention Sum is paid.

If in the event that after nine months following the CS Completion Date, completion of Roll Out (by reference to Annex 3 to Schedule 4 of the Heads as the same may have been amended through change control) has not been achieved, then retentions from the Second Availability Fee will be made to a maximum sum of £4m and will be released in full upon completion of Roll Out.

- 1.2 All Progress Payments to ICL Pathway will be made within 30 days of the date on which the Progress Payment becomes payable.
- 1.3 Subject to Clause 2.6 of this Schedule all payments to be made without set off or deduction whatsoever.
- 1.4 In the event that Acceptance of the Core System is delayed then payment of the next Progress Payment following the delay will be adjusted in accordance with paragraph 3.1 of Schedule 7 of the Heads as amended in accordance with Schedule 1 of this letter.
- 1.5 The final Progress Payment will be due on the date of completion of National Roll-Out or, if National Rollout has not been completed by 31/3/2001, on the CS Completion Date.
- 1.6 In the event that the Roll-Out program changes from the program set out in Annex 3 to Schedule 4 of the Heads then the relevant Progress Payments will be adjusted in accordance with paragraph 3.1 of Schedule 7 of the Heads as amended in accordance with Schedule 1 of this letter.
- 1.7 The payments assume that the following paragraphs of Schedule 7 of the Heads shall apply
 - Paragraphs 1.1, 1.2, 1.3 and 1.5 (Infrastructure program in Post Offices)
 - Paragraph 2.1 (Training)
 - Paragraph 4.1 (In Office migration)
- 1.8 For the avoidance of doubt, the transition costs associated with converting existing Benefits Agency customers with cards back to order books as referred to in paragraph 7 of this letter have not been taken into account in calculating the payments.
2. Operating payments
- 2.0 In addition, payments with respect to operating the Core System shall be made on a monthly basis from 1/4/2001 in accordance with the table below ("Monthly Operating Fee"). The Monthly Operating Fee shall be calculated by taking the periodic payment figure and dividing by the number of months in the period.

Period	Periodic Payment
1/4/2001 - 31/12/2001	£63m
1/1/2002 - 31/12/2002	£85m
1/1/2003 - 31/12/2003	£87m
1/1/2004 - 31/12/2004	£81m
1/1/2005 - 31/3/2005	£21m

- 2.1 If the CS Completion Date has not been achieved by 31/3/01 the Monthly Operating Fee shall be adjusted pro rata to the number of Post Offices installed relative to the number planned to be installed at the CS Completion Date provided however that Roll-Out has taken place in at least 90% of those planned to be installed. For the avoidance of doubt amounts paid pursuant to the Capital Sum include operating and maintenance costs incurred prior to 1 April 2001.
- 2.2 The payments assume an RPI of 2.5% from the date of this letter until 31/3/2005. In the event that RPI is not equal to 2.5% over this period, the payments will be adjusted to take into account the actual rate.
- 2.3 The parties acknowledge that the Monthly Operating Fees include:
- (i) a Transaction volume cost element of 7% of the amount in the table above, which is based upon the Transaction volume forecast as set out in Annex 4 to Schedule 4 of the Heads for the period up to 31/03/2005; and
 - (ii) an Outlet cost element of 32% of the amount in the table above, which is based upon the parties' intention that Pathway will roll out the Core System to 18,573 Outlets.

The amount of the Transaction volume cost element shall be adjusted for each month by the proportion of the actual Transaction volume (calculated in accordance with Annex 1 to Schedule 4 of the Heads) to the Transaction volume forecast in the month in question, and the Outlet cost element will be adjusted for each month by the proportion which the actual number of Outlets to which services are being provided during such month bears to 18,573.

In addition, POCL shall pay for the cost of Pathway carrying out operational business change in excess of the limits set out in the Related Agreements on an incremental basis at marginal cost plus 10%.

- 2.4 The payments are based on the services comprised in the Core System Release. For the avoidance of doubt the payments assume costs relating to all aspects of the system including maintenance of the Post Office and data centre infrastructure including help desk support, all telecoms charges including line costs and usage charges, and Management Information Systems.

- 2.5 ICL Pathway will be subject to service level commitments and liquidated damages according to the Related Agreements and that these will be set off against payment. The service level commitments and liquidated damages relating to Counter Transaction Times will need to be adjusted to take reasonable account of the exclusion of BES.
- 2.6 POCL's rights to set off any sum against payments to Pathway shall be as set out by Clause 804 of the Authorities Agreement, save that POCL shall not be entitled to set off any sum due other than under this letter agreement.

[] April May, 1999

POCL

and

ICL Pathway Limited

and

ICL plc

HEADS OF AGREEMENT

Subject to Contract

Without Prejudice

THESE HEADS OF AGREEMENT are made the [] day of ~~April~~ May, 1999

BETWEEN:

- (1) Post Office Counters Ltd., whose registered office is situated at King Edward Building, King Edward Street, London EC1A 1AA;
- (2) ICL Pathway Limited whose registered office is at 26 Finsbury Square, London EC2A 1DS ("Pathway"); and
- (3) ICL plc, whose registered office is at 26 Finsbury Square, London EC2A 1DS ("ICL").

RECITALS:

WHEREAS

1. By Agreements each dated 15 May 1996 made between:

- (i) Pathway, POCL and DSS (the "Authorities Agreement");
- (ii) Pathway and the DSS (the "DSS Agreement"); and
- (iii) Pathway and POCL (the "POCL Agreement")

as amended through change control (together "the Related Agreements"), Pathway agreed to design, develop and implement an automated system for the provision of, inter alia, benefit payment, automated payment and point of sale services at Post Offices, together with reconciliation and transaction information services for the DSS and POCL, and thereafter to operate and support such services until expiry of the Related Agreements in 2005 (the "Project").

2. Disputes arose between Pathway, ~~the~~ DSS and POCL in relation to the Project.

3. Whilst work continued on the Project, the parties conducted frequent negotiations in relation to such disputes throughout 1998 and up to the date of these Heads, with the active involvement of HM Treasury acting as mediator and/or facilitator.

4. The parties agree to enter into these Heads with a view to resolving [to resolve] such disputes and continuing [to continue] with the Project on the basis hereinafter appearing (the "Updated Project").

5. These Heads refer amongst other things to the provision of a Benefit Payment Service for the payment of benefits by means of a Post Office Smartcard. The parties intend to expand the Services associated with the Post Office Smartcard to exploit opportunities for the additional business referred to in the Related Agreements as Additional POCL Services. The opportunities arising from the Modernising Government White Paper will be part of the additional business which the parties intend to expand.

1. **Status of Agreement**

[EITHER]

[ICL view: These Heads are intended to be legally enforceable.]

[OR]

[POCL view: These Heads (other than paragraphs 16.1 and 16.2) are not intended to be legally enforceable.]

2. **Interpretation**

- 2.1 Words and expressions used in these Heads shall unless the context otherwise requires, bear the meanings ascribed to them in Schedule 1.
- 2.2 Unless otherwise defined herein, terms defined in the Related Agreements shall have the same meanings in these Heads.
- 2.3 Unless otherwise stated herein, references to paragraphs and Schedules shall mean the paragraphs and Schedules of these Heads.

3. **Conditions for Agreement**

- 3.1 These Heads are conditional upon the occurrence of the events set out in Schedule 2.
- 3.2 If the conditions set out in Schedule 2 are not fulfilled by 31st [December], 1999 these Heads (other than paragraphs 16.1 and 16.2) shall lapse and cease to be of any effect and the parties will retain all rights under the Related Agreements.
- 3.3 The parties shall use all reasonable endeavours to fulfil the conditions set out in Schedule 2.]

[ICL view: These Heads are unconditional.]

4. Full and Final Settlement

The parties hereby agree that [upon execution of these Heads] [upon these Heads becoming unconditional and the Updated POCL Agreement being entered into and becoming unconditional] (the "Effective Date") these Heads shall be in full and final settlement of all claims and counterclaims which any party to these Heads has or may have against any other party hereto arising from or in connection with the Related Agreements. Each party hereto will acknowledge that it is not aware of any other facts or circumstances in existence upon the Effective Date which it is aware are likely to give rise to any such claim or counterclaim.

5. Benefit Payment Service

[POCL view:

- 5.1 Pathway shall draw up a service specification for the provision of a Benefit Payment Service as described in Schedule 3. The specification shall be in a form approved by POCL, such approval not to be unreasonably withheld or delayed. The parties shall use all reasonable endeavours to agree the specification by 31st December, 1999.
- 5.2 Following approval of the service specification Pathway shall be responsible as design authority to design, develop and implement a system which provides the Benefit Payment Service in accordance with the service specification and to the timetable referred to in paragraph 7 below.
- 5.3 As soon as reasonably practicable, ICL, Pathway and POCL shall negotiate in good faith a comprehensive agreement (the "Updated POCL Agreement") which sets out all the parties' rights and obligations in relation to the Core System and the Benefit Payment Service, including, inter alia, as to the specification, development, testing, acceptance, implementation and pricing thereof and the detailed timetable applicable thereto.
- 5.4 To the extent not amended by these Heads, the provisions of the Authorities Agreement and the POCL Agreement shall apply until the Updated POCL Agreement is entered into [and has become unconditional,] and shall be incorporated in the Updated POCL Agreement save as agreed by the parties.]

[ICL view:

- 5.1 Unless otherwise agreed Schedule 3 will stand as the Service Specification.
- 5.2 The parties will use their reasonable endeavours to agree provisions adding further detail to Schedule 3.
- 5.3 In the event that the parties agree a change to Schedule 3 an appropriate time and cost adjustment will be made through change control procedure.

5.4 In the event of dispute between the parties as to:

- (i) whether a provision as mentioned in paragraph 5.2 which relates to technical issues constitutes a change to Schedule 3 or additional detail thereto; or
- (ii) the extent of work required to implement an agreed change of detail

the parties will resolve such dispute by use of the Dispute escalation procedure set out in paragraph 7 of Schedule 6, with the exception of paragraph 7.9 which will be amended for the purposes of this paragraph 5 as follows:

"If POCL vetos a Decision and that Decision was in favour of Pathway then the direct costs of and associated with such extra work as shall be required as a consequence of the exercise of the veto shall be dealt with in accordance with paragraph 7.10 of Schedule 6".

5.5 In the event that the designated Expert under paragraph 7 of Schedule 6 does not consider himself suitable to consider such dispute the parties will abide by his choice of a replacement expert.]

6. Pricing

The terms as to pricing in the Updated POCL Agreement shall be in accordance with the commercial agreement set out in Schedule 4.

7. Timetable

The timetable to be contained in the Updated POCL Agreement shall be in accordance with Schedule 5.

8. Acceptance Provisions

The provisions as to Acceptance to be contained in the Updated POCL Agreement shall be in accordance with Schedule 6.

9. Commercial Matters

~~The parties agree that~~ The Updated POCL Agreement shall make provision for certain commercial matters in accordance with Schedule 7.

10. Termination and Related Matters

The Updated POCL Agreement shall contain provisions in relation to termination and related matters in accordance with Schedule 8.

11. Fujitsu Guarantee

11.1 ICL shall procure that Fujitsu shall [upon the Effective Date] provide to POCL:

11.1.1 a legally binding and enforceable guarantee in the form contained in Schedule 10; and

11.1.2 a legal opinion by a Japanese law firm in the form contained in Schedule 11.

11.2 In addition, ICL shall upon the Effective Date enter into such documentation as shall be necessary to ensure that ~~it continues to be bound by~~ its existing guarantees under the Related Agreements continue in force in respect of the Updated POCL Agreement.

[11.3 The parties are to consider an increase in the £200m liability cap (in contracts and guarantees) to reflect the term and the scope of the Updated POCL Agreement.]

12. Public Private Partnership

POCL, ICL and Pathway acknowledge their agreement to the PPP Heads in the form set out in Schedule 9. The PPP Heads have been entered into to enable the parties to exploit the opportunity of additional business referred to in the Related Agreements as Additional POCL-Services by exploiting the services associated with the Post Office Smartcard. The parties will seek to exploit the opportunities arising from the Government White Paper: Modernising Government as part of this additional business. The PPP Heads shall come into effect on the Effective Date.

13. Future Work

13.1 POCL and Pathway agree to identify and prioritise any outstanding CCNs and to raise and/or approve new CCNs, all as required to cover Outstanding Agreements to Agree and other matters, in each case relevant to the Core System Release. The parties shall use all reasonable endeavours to achieve approval of all such CCNs by [31st December, 1999].

13.2 POCL shall, in a timely fashion, discharge any outstanding Contracting Authorities obligations as referred to in Schedule B05 of the Authorities Agreement and Schedule A16 of the POCL Agreement ("CARS"), including "ongoing" CARS relevant to the Core System Release and the Updated POCL Agreement.

14. [Tripartite Agreement

14.1 [Within [] of execution of these Heads] Pathway, ICL and POCL will enter into an agreement among themselves and DSS (the "Tripartite Agreement") which will provide, inter alia, for the following:

- 14.1.1 a full and final settlement of all claims that any party to the Related Agreements has or may have against any other party thereto which arises from or is in connection with the Related Agreements;
- 14.1.2 cancellation of the DSS Agreement and release (as appropriate) of the rights and obligations thereunder of the parties thereto;
- 14.1.3 that [POCL view: from the date on which these Heads become unconditional until the Effective Date] [ICL view: from the date of execution of these Heads until the date of execution of the Updated POCL Agreement], the Related Agreements shall be read and construed subject to the terms of these Heads and the Tripartite Agreement. (These Heads and the Tripartite Agreement are collectively referred to as the "Settlement Agreement");
- 14.1.4 that in the event of any conflict or inconsistency between the terms of the Settlement Agreement and the Related Agreements then the terms of the Settlement Agreement shall prevail; and
- 14.1.5 that in the event of any conflict or inconsistency between the terms of these Heads and the Tripartite Agreement concerning the rights and/or obligations of ICL, Pathway and POCL then the terms of these Heads shall prevail.]
- 14.2 The parties hereto shall use all reasonable endeavours to enter into the Updated POCL Agreement as soon as reasonably practicable.
- 14.3 The Updated POCL Agreement will replace the Authorities Agreement and the POCL Agreement in their entirety.
- 14.4 [POCL view: If the Updated POCL Agreement is not entered into by 31st [December,] 1999 these Heads (other than paragraphs 16.1 and 16.2) shall lapse and cease to be of any effect and the parties will retain all rights under the Related Agreements.]

[ICL view: If the Updated POCL Agreement is not entered into by 31st [December,] 1997, the Settlement Agreement shall remain in full effect and force and the Related Agreements shall continue to be read and construed subject to the terms of the Settlement Agreement.]

15. **[Completion**

Upon [the third business day following these Heads becoming unconditional] [execution of these Heads] the parties shall deliver, or procure to be delivered, the following documents duly executed:-

- (A) [Tripartite Agreement;

- (B) agreement for the release of DSS from the DSS Agreement and the release of POCL from the POCL Agreement in respect of BES; [Parties to consider whether this agreement will be included in the Tripartite Agreement.]
- (C) agreement between POCL and DSS in relation to ongoing service including, inter alia, deliverables required from CAPS to support the BPS and the implementation timescales for these deliverables;
- (D) agreements as to funding of POCL;
- (E) sub-contract between Pathway and Girobank;
- (F) Fujitsu guarantee required in paragraph 11.1.1;
- (G) legal opinion required in paragraph 11.1.2; and
- (H) ICL guarantee required in paragraph 11.2]

[Paragraph 15 will require amendment upon confirmation as to the status of these Heads.]

16. Miscellaneous

16.1 Confidentiality

Each party agrees to keep confidential and not to disclose to anyone else the existence or the terms of this document or the negotiations relating thereto (together "Confidential Information").

Notwithstanding the above, any party may disclose Confidential Information

- (A) if and to the extent required by law;
- (B) if and to the extent that the other parties have given prior written consent to the disclosure;
- (C) to its professional advisers;
- (D) to the extent requested by H.M. Government;
- (E) if and to the extent that the Confidential Information is in the public domain or falls into the public domain without breach of any applicable confidentiality obligation (including this paragraph);
- (F) to the Post Office;

- (G) to Fujitsu;
- (H) potential arrangers of funding for the Project or the Updated Project; or
- (I) if and to the extent reasonably necessary to be disclosed for the purpose of arranging and maintaining funding generally for ICL and/or Pathway.-

In the event that Confidential Information is disclosed by any party to its professional advisers, that party shall procure that its professional advisers comply with the restrictions contained in this paragraph, mutatis mutandis.

16.2 [Announcements and Publicity

[No public announcement or public circular (including a media release) relating to the subject matter of these Heads will be made unless it has first been agreed between the parties in writing. This restriction shall not apply to any announcement intended solely for internal distribution by the party in question or any disclosure required by any legal, accounting or regulatory requirement.]

[to be confirmed by HMT.]

16.3 No Representation

Each of the parties acknowledges that in entering into these Heads it has not relied on any representation warranty, promise or assurance, whether or not in writing, and whether or not negligent, given or made by any other party as an inducement to enter into these Heads. Accordingly no party shall have any right of action (except in the case of fraud) against any other party arising out of any such representation, warranty, promise or assurance.

[16.4 Severability

If any of the provisions of these Heads is judged to be invalid, illegal or unenforceable, the continuation in full force and effect of the remainder of them will not be prejudiced but such provision shall be deemed modified to the extent necessary in the court's opinion to render such term or provision enforceable, and the rights and obligations of the parties shall be construed and enforced accordingly, preserving to the fullest permissible extent the intent and agreements of the parties herein set forth.]

[16.5 Waiver

No forbearance or delay by any party in enforcing its rights will prejudice or restrict the rights of that party, subject to the express timescales set out herein, and no waiver of any such rights or of any breach of any contractual term will be deemed to be a waiver of any other right or of any later breach.]

[16.6 Governing Law and Jurisdiction

These Heads are governed by and shall be interpreted in accordance with English Law and the parties submit to the exclusive jurisdiction of the English Courts.]

16.7 Headings

The headings in these Heads shall not affect its interpretation.

16.8 Singular/Plural

Throughout these Heads, whenever required by the context, the use of the singular shall be construed to include the plural, the use of the plural shall be construed to include the singular and the use of any gender shall include all genders.

16.9 ~~Attachments~~ Schedules

The Schedules to these Heads and the annexes to the Schedules constitute an integral part hereof.

Signed for and on behalf of POST OFFICE COUNTERS LTD

By:..... Date:.....

Name:.....

Title:.....

Signed for and on behalf of ICL PLC

By:..... Date:.....

Name:.....

Title:.....

Signed for and on behalf of ICL PATHWAY LIMITED

By:..... Date:.....

Name:.....

Title:.....

SCHEDULE 1Definitions

Acceptance	the meaning given to it in paragraph 2.1 of Schedule 6
BA	the Benefits Agency
Banking Act	the Banking Act 1987
Benefit Payment Service or BPS	the benefit payment service described in Schedule 3
Commercial Director of ICL	means the Director, Commercial and Legal Affairs of ICL or his successor from time to time
Core Observation Period	the meaning given to it in paragraph 1.2(a) of Schedule 5
Core System and Core System Release	the meanings given to them in paragraph 1.1 of Schedule 5
Counter Equipment	the PCs, printers, screens, local area network and other equipment installed by Pathway in Post Offices for the provision of the POCL Services, OBCS, LFS and BPS
CS Completion Date	the meaning given to it in paragraph 5 of Schedule 8
Development Phase	the phase specified in paragraph 2.2.3 of Schedule 5
DSS	The Secretary of State for Social Security, acting through and on behalf of the Department of Social Security and on behalf of the Department of Health and Social Security for Northern Ireland
Effective Date	the meaning given to it in paragraph 4 of these Heads
FSA	the Financial Services Authority
Managing Director of POCL	the meaning given to it in Schedule 9
Modern Government	[the government services as described in the White Paper dated [] entitled: []]

Network Banking Service	the meaning given to it in paragraph 4 of Schedule 5
PIN	personal identification number
POCL	(except in Schedule 9, where it bears the definition contained in that Schedule) Post Office Counters Ltd., whose registered office is situated at King Edward Building, King Edward Street, London EC1A 1AA, or such other subsidiary of the Post Office as may be nominated from time to time to take over the rights and obligations of Post Office Counters Ltd. under the Updated POCL Agreement
POCL Account Service	[a service to be provided by Pathway to POCL for the operation of the Post Office Account as referred to in Schedule 3]
Post Office	the statutory corporation so named and formed under the Post Office Act 1969 (as amended)
Post Office Account	[the account with POCL with the functions as described in paragraph 2 of Schedule 3]
Post Office Smartcard	an industry standard smartcard to be specified and designed by Pathway in accordance with Annex B of Schedule 3 which is to be used in the provision of the BPS and which may be used in conjunction with the services described in the PPP Heads
Post Office Smartcard Management Service	a service to be provided by Pathway to POCL for issuing and managing Post Office Smartcards analogous to the CMS for benefit payment cards under the Related Agreements, as referred to in Schedule 3
PPP Heads	the heads set out in Schedule 9
Release	any of the <u>software</u> <u>R</u> releases referred to in Schedule 5
Release Authorisation Board	in relation to any Release, a meeting of Pathway, POCL [and DSS] chaired by the POCL Horizon Programme Director to review readiness reports and decide whether that Release should go into live operation [it being intended by the parties that the role of DSS in such meetings shall be limited to providing information and advice to POCL]
Scorecard	the meaning given to it in paragraph 4.2 of Schedule 4
SSA	Social Security Agency of the Northern Ireland Office

Tripartite Agreement the meaning given to it in paragraph 14.1 of these Heads

Updated POCL Agreement the meaning given to it in paragraph 5.3 of these Heads

SCHEDULE 2

Conditions

[POCL view:

[specify conditions such as:

1. Signing of the Tripartite Agreement among DSS, POCL, ICL and Pathway on terms to be agreed.
2. conclusion of other agreements to POCL's satisfaction including:
 - (a) release of DSS from DSS Agreement and the release of POCL from the POCL Agreement in respect of BES; [Parties to consider whether this agreement will be included in the Tripartite Agreement.]
 - (b) agreement between POCL and DSS in relation to ongoing service including, inter alia, deliverables required from CAPS to support the BPS and the implementation timescales for these deliverables;
 - (c) agreements as to funding of POCL; and
 - (d) sub-contract with Girobank.
3. indication from HM Government that it will permit POCL to apply for authorisation under the Banking Act or that HM Treasury will grant POCL exemption.
4. indication from the FSA to POCL's reasonable satisfaction that there is no reason why POCL should not be granted authorisation under the Banking Act within 12 months.
5. Indication from HM Treasury [Govt?] that it will ensure POCL's obligations under its banking licence in relation to liquidity and capital [others] will be met.
6. confirmation to POCL's reasonable satisfaction that the BACS system will be made available for the purpose of operating the Benefit Payment Service.
7. satisfactory resolution of legal issues, including public procurement law, data protection, etc.
8. obtaining of any other necessary regulatory approvals/consents.
9. obtaining of ministers' approval.

10. obtaining of Post Office Board approval.
11. execution of Fujitsu guarantee and legal opinion required in paragraph 11.1 of these Heads.
12. execution of ICL guarantee required in paragraph 11.2 of these Heads.
13. funding by H.M. Government of the up-front payment referred to in paragraph 3.4 of Schedule 4.
14. resolution of issues as to the effect of the revised arrangements on POCL's balance sheet.]

SCHEDULE 3

Outline Service Description: Benefit Payment Service (BPS)

CONTENTS

- 1.0 Introduction**
- 1.1 The Benefit Payment Service
- 2.0 The Post Office Account Service**
- 2.1 Overview
- 2.2 Payments of Benefits
- 2.3 Opening a Post Office Account
- 2.4 Operating a Post Office Account
- 2.5 Closing a Post Office Account
- 2.6 Account Out-Payments
- 2.7 Foreign Withdrawals
- 2.8 Emergency Cash Withdrawals
- 2.9 Fallback
- 2.10 Statements
- 2.11 Administration
- 2.12 Reconciliation
- 3.0 Risk Transfer, Liabilities and Key Dependencies**

1.0 Introduction

The Benefit Payment Service (BPS) will be characterised by the following criteria:

- A simple solution making maximum possible use of low cost automated processes and best use of the existing system design.
- Facility will be 'universal' and aimed at financial inclusion, and be free of charge to the customer.
- Payment will be by means of a Post Office Smartcard that can then be used as an enabler for Modern Government.
- Money transfer will be by means of a standard ACT banking feed from BA/DSS and SSA via BACS to POCL bank.
- Pathway will operate the bank and Post Office Smartcard service on POCL's behalf.
- Account responsibility (and risk) will be transferred from Benefits Agency to POCL consistent with standard banking practice.

Pathway's approach has been driven by its understanding of the following business drivers as follows:

DSS and SSA:

- Payment of all benefits by ACT as soon as possible.
- Full accounting and reconciliation.
- Minimise fallout of customers who cannot or will not comply with simple banking rules.
- Establish a 'clean break' boundary for liability transfer.
- Eliminate encashment fraud.
- Provide acceptable levels of customer service.
- There should be no knock-on to entitlement fraud.
- The payment method should facilitate the move to Modern Government including single point of contact for customers.
- The solution must offer value for money.

POCL:

- Maintain POCL's market share of the benefit payment market.
- Recognize the direct revenue/ contribution to POCL business.
- Maintain the footfall for other types of POCL business.
- Maintain customer service advantages.
- Maintain fast transaction times (queuing, cost).
- The solution must be synergistic with POCL's strategy for developing its network banking business, i.e. complementary to but not in competition with the banks.
- Affordable and acceptable take on of risk.
- A Post Office Smartcard to enable Modern Government.
- Affordable automation service.

1.1 The Benefit Payment Service.

The concept is one of a simple Post Office 'no overdraft' account accessed by a Post Office Smartcard.

The Post Office Account will have a number of characteristics which derive directly from the business drivers.

- 'Universality' demands that there be no credit vet hurdles. That means that the Post Office Account must be run so as to prevent the customer going overdrawn. That in turn means no cheque book, no direct debits and 100% balance checks before withdrawal.
- To make the Post Office Account opening process as smooth, automated and cost effective as possible, the Post Office Account (and card) request is to be triggered by a feed from a single interface DSS system (currently expected to be CAPS) for all customers who choose to be paid via a post office [until terminated or expiry of the Updated POCL Agreement [ICL view: or these Heads, whichever is later.]] ~~during the life of the contract.~~ This feed will provide all the information required by POCL to open the Post Office Account. The customer will be asked to verify that this information is correct, and responsibility for accuracy passes to POCL from DSS/BA at that point. The Post Office Smartcard is expressly designed to be used for Modern Government, e-commerce etc., the idea being that feeds from other POCL clients will be added in due course and new functions can be added to existing cards.

- Since POCL is to be a bank, customers must sign a banking mandate agreeing to POCL's conditions before a Post Office Account can be opened in their name. Until that happens, they will not transfer from the current BA payment methods. To avoid undue 'fallout' at the mandate stage (and also unacceptable queuing times), the sign up process must be made straightforward and simple for the customer.
- The Post Office Account may be used by the customer for other in-payments than those from BA, but it is a current deposit account, not an interest bearing savings account.
- Permanent and casual agent facilities will not apply. [Customers may request joint accounts with one other person.] ~~[Needs to be resolved with DSS before 10 May.]~~
- BA will remain responsible for establishing appointees to act for customers: as far as POCL and Pathway will be concerned, the appointee will be the customer. ~~[Needs to be considered further.]~~
- An arrangement will need to be struck between POCL and BA to deal with those customers who are unable or unwilling to comply with POCL's Post Office Account rules. Such an arrangement may involve the use of the appointee system.
- DSS/BA will provide a means of payment of last resort and a same day service (for example, by green girocheque) which will be outside the BPS.

2.0 The Post Office Account

2.1 Overview

The service is designed to:

- Serve the cash oriented persons in society by continuing to offer payment of benefits in post offices.
- Offer an account to benefit customers whereby they can continue to collect benefit in cash at post offices.
- Provide budgeting and saving facilities for ISAs, pensions, bill payments, etc.
- Ensure that customers are prevented from going overdrawn.
- Provide mini-statements whenever a withdrawal is made or a request is made at the counter.
- Allow POCL to offer Modern Government services via their Post Office Smartcard and thereby to establish Modern Government as a new business stream and basis for customer loyalty before customers migrate to mainstream banking services and bank cards.

2.2 Payment of Benefits

Benefit payments will be passed by BA through BACS to customers' Post Office Accounts operated by Pathway.

A customer may elect to open a joint account with one other named individual e.g. spouse or 'permanent agent'. Where BA has established an appointee, the appointee becomes the POCL bank customer.

To minimise operating costs and transaction times, and maximise system availability and security given the limited customer information, Post Office Accounts will be held at branch (nominated post office) level with full backup copies held centrally.

Where Pathway receives BACS information by 4am on any weekday (other than a bank holiday) and to the extent that such information is not the subject of a cancellation order received via BACS by 11am on that day, it shall make available to customers the benefit payments to which such information relates on the next weekday (other than a bank holiday) by the later of 7am and the opening of business of the relevant post office.

[ICL view: The facility for late recall or cancellation of account credits has still to be considered and has not been taken into account either within the payments set out in Annex 2 of Schedule 4 (which would require appropriate adjustment) or otherwise.]

BA is responsible for payments to BACS and BACS clearance on time. There are currently no identified contingency arrangements to deal with BA or BACS failures immediately prior to payments being due to customers.

A schematic of the service is shown in figure 1 overleaf:

Benefit Payment Service

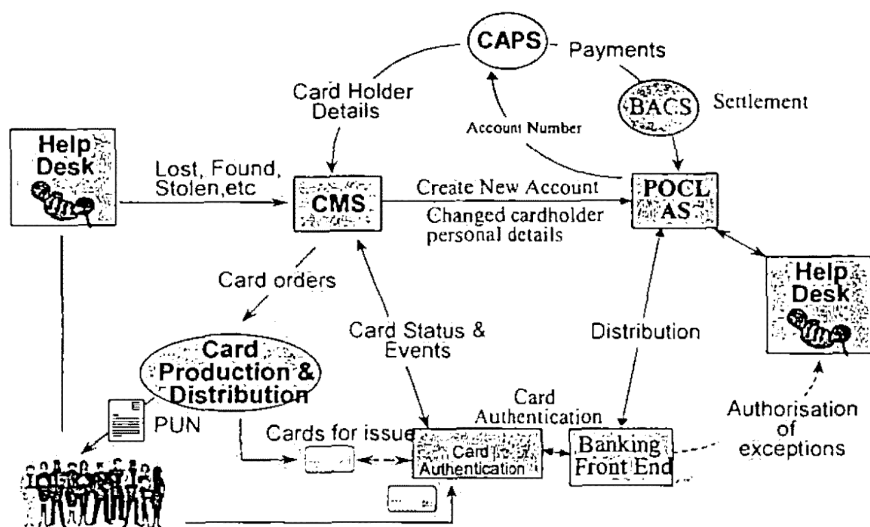


Figure 1: the Benefit Payment Service

2.3 Opening a Post Office Account

[Parties to consider whether benefit recipient simultaneously holding an order book(s) and a Post Office Smartcard requires amendment to Schedule 3.]

[Parties to consider how to ensure that persons with multiple benefits do not end up with multiple Post Office Accounts.]

[POCL to liaise with DSS to determine impact (if any) on the account opening process arising out of DSS complying with the Data Protection Act.]

Migration to the BPS involves a significant shift in responsibilities from BA to POCL, and attendant rule changes which will affect some customers far more than would have been the case under the current service design for the Benefit Payment Card (as defined in the Related Agreements).

To ensure a smooth transition, a considerable amount of customer education will be required on the part of POCL/Pathway. ~~{(Pathway has assumed it will contribute some £7m for this activity with this figure being net of sunk costs to date).}~~ ~~[Move to Schedule 4]~~ The basis of Pathway's charges associated with the provision of customer education is set out in paragraph 7 of Schedule 7. BA must advise its customers in writing of the changes and inform them of the new Post Office Account terms and conditions which will apply. BA must

deal with any customers who object to the transfer. For their part, POCL will need to provide an information help line to deal with new customer queries.

It has been specifically assumed that for efficiency and security reasons, *all* customers will have their Post Office Account openings triggered by a single interface DSS system (currently expected to be CAPS) [until termination or expiry of the Updated POCL Agreement] [ICL view: or these Heads, whichever is later]. When BA is ready to migrate an existing customer from order book to the POCL Account Service BA will start the account opening process by sending the initial customer details to the POCL Account Service system electronically via a single interface DSS system (currently expected to be CAPS). The data sent by BA (full name, address, date of birth, NINO and nominated post office) will be sufficient to open and maintain the Post Office Account (maintenance of this data becomes a POCL responsibility). On receipt of such information, Pathway will provide services to instruct the counter clerk to start the bank mandate issue process and it is assumed that OBCS will be enhanced to do this [ICL view: and BA will enhance ENCNS to do this].

For new customers and those paid by girocheque or order books without bar codes, an alternative method of instruction will need to be identified and agreed with BA.

The mandate details will be printed on to a pre-printed two part form and handed to the customer to check. By signing the mandate the customer will confirm both the accuracy of the BA data and his acceptance of Post Office Account terms and conditions. If the data is incorrect, e.g. if address is out of date, the customer will be referred to BA to correct the information.

A 'reject' marker will be sent back to BA via a single interface DSS system (currently expected to be CAPS), signalling that further action is required by the customer and BA before the Post Office Account can be opened. A service level arrangement will be required between BA and POCL to compensate POCL for costs incurred because of data errors.

Following the ATM and emerging smartcard payment paradigms, the Post Office account rules will include the use of PINs. Specifically, the customer must accept responsibility for keeping the PIN secret.

The BPS will provide a facility for the counter clerk to confirm that the mandate has been signed with such confirmation triggering the allocation of a unique account number. This account number is then passed back to BA for BA's subsequent use in the BACS feed.

The above confirmation of signature of the mandate also triggers the ordering of the Post Office Smartcard and the sending of a Pick Up Notice ("PUN") to the customer. During card issue the customer will choose a PIN using the PIN pads. Customers will use the Post Office Smartcard, in conjunction with the PIN, to access their Post Office Account and withdraw cash as required or manage regular payments to other organisations, such as utilities, through a 'household budgeting' facility which may be added in due course if required by POCL.

The mandate will include a check-box to allow customers to deny consent to their personal data being used for other purposes, e.g. direct marketing by the Post Office. The system will record the customer's choice.

2.4 Operating a Post Office Account

POCL may wish to limit the number of withdrawals made by customers. A minimum withdrawal value (or entire balance) rule has been assumed. No constraint has been applied to the number of 'foreign' withdrawals (unlike the 2 in 26 rule for the Benefit Payment Card (and under the Related Agreements)) but because of the additional communications costs involved, POCL may wish to apply an 'X in Y' limit. Such a mechanism to give effect to an "X in Y" limit is possible but has not been assumed in these Heads, although POCL and Pathway will consider during the Service Specification Phase (as defined in paragraph 2.2.1 of Schedule 5) whether such a limit should be included in the BPS.

The counter application for providing access to the POCL Account Service will be largely common with that for the Network Banking Service, providing a standard interface for post office staff at the counter. This standardisation will reduce the need for additional training.

The Post Office Account will not provide full banking services such as the provision of cheque books, direct debits or overdraft authorisations, and it is not intended that the POCL Account Service will ever be enhanced to provide these facilities. Its principal aim is to support convenient cash access and cash management facilities for citizens in a cost effective way and to ensure that customers cannot go overdrawn. It is not intended to compete with the full banking services available from other retail banks (and accessible at POCL outlets through the Network Bank service), but rather to provide a simple "entry level" banking service as a stepping stone to full banking (for those who can and wish to migrate).

Migration to a full banking service will be entirely at customer choice and those who wish to keep a Post Office Account will be able to do so for the foreseeable future. In some cases it may be attractive to customers to retain a Post Office Account in addition to a full service bank account from other retail banks.

2.5 Closing a Post Office Account

A Post Office Account will be closed if the customer closes it or dies.

Dormant Post Office Accounts can be closed by POCL after due process and payout by cheque of remaining balances.

Pathway will administer all such closures (sub-contracting the administration work) to comply with the appropriate banking regulations and POCL's chosen style of banking service.

POCL must have the right to deal appropriately with customers who prove themselves unable or unwilling to operate their Post Office Accounts according to Post Office rules. In the extreme, POCL will close the Post Office Account and refer the customer back to BA who

will decide what alternative method of payment is appropriate to that customer's circumstances e.g. use of appointee or payment by green girocheque. If an appointee cannot be found, DSS/BA shall be responsible for the payment method of last resort.

2.6 Post Office Account Out-Payments

Save as provided for in paragraphs 2.8 and 2.9 of Schedule 3, withdrawals using the Post Office Smartcard will be made with PIN protection and therefore signature from the customer will not be required. A 'mini-statement' will always be produced on a withdrawal.

On cash withdrawals customers will have the option of:

- withdraw all,
- withdraw a stated amount (up to the account balance and subject to any minimum withdrawal in the POCL business rules), or
- display balance and then decide amount.

A facility to enable customers to make regular payments to utilities, local authorities, ISAs, etc. ("household budgeting") can be provided, if required by POCL.

2.7 Foreign Withdrawals

The banking principle of right person, right place, right time, has been applied to Post Office Account management. The current incidence of withdrawals at other offices ("foreign withdrawals") is only some 4% against an allowance of 8%. Although it is assumed that the proportion will increase, the overwhelming majority of withdrawals is still expected to be made at the customer's nominated post office. The Post Office Account balance will therefore be maintained at the nominated (branch) post office.

Foreign withdrawals will *not* be restricted by system considerations but there will be a higher charge to reflect communications costs and a small reduction in service availability in fallback modes.

2.8 Emergency Cash Withdrawals

It is anticipated that POCL will wish to provide such an emergency card withdrawal service.

When the customer has lost his card or forgotten the PIN, normal account access will be unavailable. In these circumstances an emergency cash withdrawal facility can be provided at the nominated post office, probably subject to a value ceiling, according to POCL's chosen rules. It is assumed that withdrawal will be based upon 2 pieces of separate identification (one including a signature, the other an address to be checked against system records) plus a customer verification process and access to the help desk (since account access by name is

not supported at the counter). The transaction will be recorded by signed receipt, which it is assumed will be stored for a limited period at the post office (ie. not centrally).

The risk associated with emergency withdrawals is POCLs subject to paragraphs 5.3, 5.5 and 5.7 of Annex B to Schedule 3.

2.9 Fallback

Fallback is the term given to the methods of dealing with a variety of failure conditions within the operational system.

Pathway will be responsible for ensuring continuity of service within agreed service levels and, where the failure is due to Pathway fault, for any risks associated with that requirement.

2.10 Statements

A simple form of statement ("mini-statement") will be available at the counter whenever a withdrawal is made or at any other time upon request. This will show as a minimum:

- the current date
- the opening balance
- the value of the current withdrawal (if applicable)
- any credits applied to the Post Office Account since the last withdrawal or during the previous six weeks (whichever is the shorter period)

Customers will be able to obtain a full statement upon request at the counter or from the help desk. This statement will be sent to the home address of the Post Office Account holder. Such statement will show all account activity in the previous 13 weeks. ~~It is assumed that there will be no more than 5 million such statements per annum.~~

Given the above facilities it is assumed that POCL will obtain a banking exemption with respect to the new statutory requirement to issue full statements quarterly. ~~Therefore, compliance costs for this statutory requirement have not been included in the pricing for the BPS. The basis of Pathway's charges associated with the provision of statements is set out in paragraph 3.3.1 of Schedule 4.~~

2.11 General Post Office Account administration

A set of administration functions has been identified consistent with POCLs becoming a bank. These are identified in Annex A to Schedule 3 and include the provision of full quarterly account statements. ~~and for convenience include the provision of quarterly account statements. Save as provided~~ The basis of Pathway's charges associated with the

provision of such functions is set out in paragraph 3.3.1 of Schedule 4; these services have not been costed into the Pathway offer.

In addition, the nature and form of archiving and audit requirements must be validated against banking regulations. This has yet to be completed but the assumption in the offer is that the MIS facilities defined in the Related Agreements for BES, PAS and CMS will be sufficient.

The adoption of the ATM paradigm with use of PIN means that the onus will be on the customer to demonstrate fault by other than himself. Where such assertions do occur (repudiations), it has been assumed that Pathway will provide to POCL (but not to the BA) facilities for monitoring / enquiring about account and card status and history. Current plans are to retain information for eighteen months. If legislation, regulation or business requirements demand a longer retention period then archiving and retrieval arrangements can be made accordingly. Costs have not been included in the pricing for the BPS for retention for longer than eighteen months.

The following schematic indicates the operational and information flows.

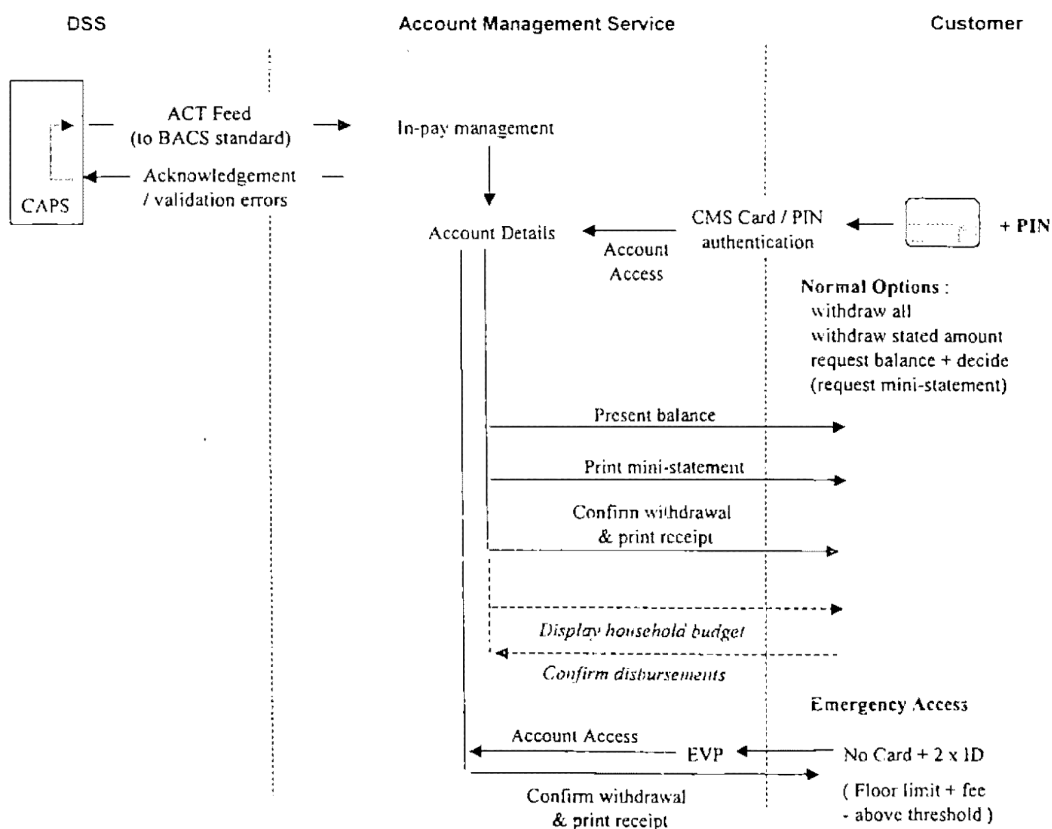


Figure 2: The Post Office account service

2.12 Reconciliation

System reconciliation and error handling processes will be applied as follows:

- file receipt and authentication from BACS and error reconciliation, according to BACS interface rules
- individual Post Office Account reconciliation, according to banking regulations
- Reconciliation of post offices' cash accounts with POCL systems will include the transactions recorded for the Post Office Accounts.

3.0 Risk transfer, Liabilities and Key Dependencies

These are set out in Annex B to Schedule 3.

ANNEX A TO SCHEDULE 3

As part of the BPS POCL ~~will require~~ Pathway will provide POCL with the banking administrative services ~~to be provided by Pathway~~ described in paragraph 3 of this Annex. Pathway intends to sub-contract the provision of these services to Girobank. This Annex has been provided to Girobank to facilitate initial discussions as to how these services are to be provided. This Annex is also included in these Heads in order to clarify the definition of the BPS and to identify which elements of such services will be charged separately to POCL under paragraph 3.3.1 of Schedule 4. All volumes in this Annex are estimates. ~~[POCL to specify which (if any) of the services set out in this Schedule are to be included in the BPS service description.]~~

General Post Office Account Administration Services required from Girobank to support the Benefit Payment Service (BPS)

1. Purpose of Document

- 1.1 The purpose of this document is to scope and define the product specifications, responsibilities, and potential volumes for additional services which Pathway need Girobank and/or Alliance & Leicester (Girobank) to supply in order to deliver the Benefit Payment Service (BPS).
- 1.2 This document should allow Girobank to gain an initial understanding of what would be required of them, and to provide Pathway with initial, indicative charges for these services.
- 1.3 In addition, it will provide Girobank with a framework for raising questions in order to further clarify aspects of the service.

2. Background

- 2.1 Pathway and POCL have been asked by Treasury (HMG) to investigate the activities and costs associated with delivering and operating a simple Post Office Account for people on benefit. This account would be funded through BACS by the Benefits Agency (BA), and would allow account holders to obtain access to the funds in their Post Office Account via a Post Office Smartcard. Access to these funds would only be available at Post Offices.
- 2.2 In this way HMG would be able to provide simple banking facilities to the entire population while avoiding the extensive costs of creating and operating a full banking service.

3. Overview of Services

A fuller definition of the services is provided in sections 4 to 13. However, in summary Pathway needs a sub-contractor to supply services in the following areas:

- 3.1 Storage and retrieval of signed account mandates.
- 3.2 Death of account holder.
- 3.3 Legal representative append for account holder.
- 3.4 Change of account holder name.
- 3.5 Change of account holder address.
- 3.6 Initial details capture for account opening.
- 3.7 Enquiries on account history.
- 3.8 Repudiation of account activities.
- 3.9 Statement production for account.
- 3.10 Loss of Personal Identification Number (PIN).

4. Storage and Retrieval of Signed Account Mandates.

- 4.1. As part of the account opening procedure, the customer will sign a paper mandate at the counter which details the terms and conditions of the account, and their personal details.
- 4.2. The mandate will be no more than 228mm by 280mm.
- 4.3. The mandate will be pre-printed with the terms and condition of the account, with a blank space at the bottom of one side where the account holder's personal details will be printed at the counter by the slip printer, along with a space for the account holder to sign.
- 4.4. Post Offices will batch the mandates each day, associate them with a batch header which details the date and FAD code of the Post Office, and send them to Girobank in their daily pouch.

- 4.5. Girobank will process each batch capturing:
 - a) The Financial Accounting Division ("FAD") code (being a number which uniquely identifies an individual post office) and date associated with that batch.
 - b) An image of the personal details and signature section of each mandate, in accordance with best banking practice. (There is no need to image the terms and conditions.)
- 4.6 Girobank will store these electronic images for a period of not less than 5 years after the account has been closed.
- 4.7 Girobank will destroy the physical mandate.
- 4.8 Girobank will enable its systems to inform Pathway which batches have been received, and the number of mandates in each batch. This will allow Pathway to reconcile the number of mandates sent from each Post Office with the number received by Girobank.
- 4.9 When Pathway requires a copy of the mandate, it will provide Girobank via an electronic link with the date and FAD code of the batch required.
- 4.10 Girobank will provide Pathway with electronic copies, and physical reproductions of each of the mandates in that batch within 5 working days of request.
- 4.11 Volumes:

Initial Capture:	First 2 years:	7.5 million mandates per annum.
	Thereafter:	1.0 million mandates per annum.

Retrievals: 10k per annum

5. Death of Account Holder.

- 5.1 When an account holder dies, their relatives or legal representatives will inform Girobank of the death via:
 - a) Help-desk
 - b) Writing
- 5.2 Girobank will manage:
 - a) The closure of the account.

- b) The production and dispatch of a cheque for the balance.
- c) Interim status enquiries, received in writing and via the help-desk, from the relatives and legal representatives seeking information on progress to date.
- d) The production of all legally necessary correspondence with the relative or legal representative.

5.3 Pathway will enable Girobank's help desk systems to close and defund accounts.

5.4 Girobank must ensure that accounts are closed and defunded in accordance with applicable banking regulations. These would be the same banking rules and procedures as Girobank uses for closing and defunding standard A&L Giro deposit accounts when the account holder dies. When legally necessary this would include ensuring the appropriate documentation was:

- a) Received from the relative or legal representative,
and if required;
- b) Captured and stored for the appropriate period.

5.5 Volumes:

Account Closures 700k per annum

Defundings 150k per annum

6. Legal Representative Appointed for Account Holder.

6.1 When a legal representative is appointed for the account holder, for example if they have become mentally unstable, their relatives or legal representatives will inform Girobank of the situation via:

- a) Help-desk.
- b) Writing.

6.2 Girobank will manage;

- a) The closure of the account.
- b) The production and dispatch of a cheque for the balance.
- c) Interim status enquiries, received in writing and via the help-desk, from the relatives and legal representatives seeking information on progress to date.

- d) The production of all legally necessary correspondence with the relative or legal representative.

6.3 Pathway will enable Girobank's help-desk systems to close and defund accounts.

6.4 Girobank must ensure that accounts are closed and defunded in accordance with applicable banking regulations. These would be the same banking rules and procedures as Girobank uses for closing and defunding standard A&L Giro deposit accounts when a legal representative is appointed for the account holder. Where legally necessary this would include ensuring the appropriate documentation was:

- a) Received from the relative or legal representative,

and if required:

- b) Captured and stored for the appropriate period.

6.5 Volumes:

Account Closures: 150k per annum.

Defundings: 15k per annum.

7. Change of Account Holder Name.

7.1 Our preferred option is for account holders to inform us of changes of name, for example as a result of marriage, at the counter, and for all necessary processing and documentation checking to be completed at the counter. However, there will be circumstance where the account holder cannot or will not use the counter. In these circumstances the account holder will inform Girobank of the situation via:

- a) Help-desk.

- b) Writing.

7.2 Girobank will manage the change of name on the account.

7.3 Pathway will enable Girobank's help-desk systems to change the name of the account holder.

7.4 Girobank must ensure that account names are changed in accordance with banking regulations. These would be the same banking rules and procedures as Girobank uses for changing names on standard A&L Giro deposit accounts. Where legally necessary, this would include:

- a) Ensuring the appropriate documentation was received from the account holder.
- b) Issuing any associated correspondence.

7.5 Volumes:

Total: 500k per annum.

Via Girobank: 100k per annum.

8. Change of Account Holder Address.

8.1 Our preferred option is for account holders to inform us of changes of address at the counter, and for all necessary processing to be completed at the counter. However, there will be circumstances where the account holder cannot or will not use the counter. In these circumstances the account holder will inform Girobank of the situation via:

- a) Help-desk.
- b) Writing.

8.2 Girobank will manage the change of address on the account.

8.3 Pathway will enable Girobank's help-desk systems to change the address of account holders.

8.4 Volumes:

Total: 5 million per annum.

Via Girobank: 1 million per annum.

9. Initial Details Capture for Account Opening.

9.1 The vast majority of account openings will be triggered by personal details information received from Benefits Agency (BA). However, there may be occasions when a customer wishes to open an account independently of BA.

- 9.2 On these occasions the initial details capture will normally be done at the counter. However, there may be times when the prospective account holder will not or cannot use the counter. In these circumstances the prospective account holder will inform Girobank of the situation via:
- a) Help-desk.
 - b) Writing.
- 9.3 Girobank will input the standard account opening details to the system in the same way as would occur in a Benefits Agency office.
- 9.4 Pathway will enable Girobank's help-desk systems to prompt for, and accept standard account opening details.
- 9.5 Pathway will pass this information to the nominated office, where a mandate will be printed for signature as normal.
- 9.6 Volumes:
- Via Girobank: 100k per annum.
10. Enquiries on Account History.
- 10.1 Our preferred option is for account holders to make account history enquiries at the counter, where a mini-statement will be produced on the tally-roll printer. However, there will be circumstances where the account holder cannot or will not use the counter. In these circumstances the account holder will contact Girobank with the enquiry via:
- a) Help-desk.
 - b) Writing.
- 10.2 Girobank will manage the account history enquiry.
- 10.3 Help-desk enquiries will be validated using Extended Verification Procedure (EVP) questions.
- 10.4 When an enquiry is received in writing, Girobank will produce and dispatch a mini-statement to the account holder's address.
- 10.5 Pathway will enable Girobank's help-desk systems to access account histories, and to utilise EVP information.
- 10.6 Enquiries will be date limited to a maximum 13 week before the date of enquiry.

10.7 Volumes:

Total: 50 million per annum.

Via Girobank: 2 million per annum.

11. Disputed Account Activities.

11.1 When an account holder disagrees with an element of their account history, for example when they do not believe a withdrawal was made (similar to 'phantom ATM withdrawals' claims), they will inform Girobank of the specific dispute items in writing.

11.2 Girobank will produce and dispatch correspondence containing:

- a) A mini-statement detailing these items (date, time, amount, Post Office).
- b) A confirmation that the correct validation was used (correct PIN number).
- c) A statement that should they wish to progress the dispute further they should write to POCLs Fraud Management Department (address supplied).

11.3 Pathway will enable Girobank's systems to review all account information to produce the items in 11.2.

11.4 If the disputed item is over 13 weeks old, Girobank will forward the letter to POCLs Fraud Management Department, and produce and dispatch correspondence to the account holder informing them that POCLs Fraud Management Departments (Address supplied) is processing the dispute.

11.5 Volumes:

Total: 500k per annum.

Via Girobank: 100k per annum.

12. Statement Production for Account.

12.1 A physical statement will be sent to the home address of each account holder once a quarter. This statement will show all account activity in the previous quarter.

12.2 Girobank will manage the production and dispatch of all quarterly statements.

12.3 Statements will be dispatched at 2nd class mail timescales.

12.4 Pathway will enable its central systems to pass Girobank all necessary account activity on a timely basis to support statement production.

12.5 Volumes:

Total: 60 million statements per annum.

13. **Loss of Personal Identification Number (PIN).**

13.1 Our preferred option is for account holders to inform us of loss of PIN at the counter, and for all necessary processing to be completed at the counter. However, there will be circumstances where the account holder cannot or will not use the counter. In these circumstances the account holder will inform Girobank of the situation via:

a) Help-desk.

b) Writing.

13.2 Girobank will input these lost/forgotten PIN incidents into the system.

13.3 When a request has been input to the system, Pathway will be responsible for issuing a new PIN notice to the account holder.

13.4 The help-desk will confirm to the account holder that a new PIN notice will be dispatched.

13.5 When a request is received in writing, Girobank will issue correspondence to the current address confirming the loss of PIN, and informing the customer that a new PIN notice will be issued.

13.6 Pathway will enable Girobank's help-desk systems to log lost/forgotten PINs and to request the dispatch of new PIN notices.

13.7 Volumes:

Total: 2 million per annum.

Via Girobank: 500k per annum.

ANNEX B TO SCHEDULE 3**Risk Transfer, Liabilities and Key Dependencies****B1.0 Introduction**

The risk transfer, liabilities and key dependencies associated with the Benefit Payment Service are described below.

B1.1 Overall Service Responsibilities

The key business criteria described in 1.0 of Schedule 3 are summarised in terms of service responsibilities as:

Supply of customer details	BA/DSS (to be procured by POCL)
Transfer of bank credits into BACS	BA/DSS (to be procured by POCL)
Post Office Smartcard Management Service operated by	Pathway
POCL Account Service operated by	Pathway
Systems to support counter service operated by	Pathway
Reconciliation by both	Pathway-POCL
Control of payment rules	POCL
Service delivery by counter staff and agents	POCL
Service delivery by helpdesks	Pathway

From a system perspective, the responsibility of BA/DSS ends at:

- Transfer of account trigger details to Pathway
- Payment transfer from BACS

POCL shall ensure that the obligations required of BA/DSS which are set out in paragraph B4.0 of Annex B to Schedule 3 are discharged.

B2.0 Operational Responsibilities

The key service responsibilities are set out in paragraphs B3.0, B4.0 and B5.0 of Annex B to Schedule 3 and at a second level of detail in Table B1.

B3.0 POCL Obligations and Responsibilities

3.1 Subject to paragraph 5.1 of Annex B to Schedule 3 POCL shall obtain and maintain a deposit-taking licence or exemption under the Banking Act.

- 3.2 POCL is responsible for definition of business rules associated with card and withdrawal controls which shall be consistent with the BPS service description set out in Schedule 3.
- 3.3 POCL shall secure the signature of the mandate from the customer to validate details, confirmation of which is used to initiate the card/PUN process.
- 3.4 Subject to paragraphs 5.3 and 5.7 of Annex B to Schedule 3, the risk of encashment fraud is assumed by POCL. POCL's responsibility under this paragraph shall include, without limitation:
- the assessment of repudiated payment claims; and
 - the risk of PIN disclosure by the customer before two minutes elapsed time after (a) the card is reported lost or stolen or (b) the PIN is reported as having been disclosed.
- B4.0 POCL Obligations and Responsibilities on behalf of BA/DSS.
- 4.1 POCL shall be responsible to Pathway for procuring the performance of and/or for continually imposing those obligations of BA/DSS and the discharge of those responsibilities of BA/DSS which are set in this paragraph B4.0 and Table B1.
- 4.2 BA/DSS is responsible for:
- (a) providing electronically (to an agreed specification) to Pathway information (as specified in paragraph 2.3 of Schedule 3) to enable the commencement of the account mandate process;
 - (b) being able to receive electronically Post Office Account details in a manner which conforms with current BACS standards; and
 - (c) providing information via BACS to Pathway to enable Pathway to credit customer Post Office Accounts.
- 4.3 BA/DSS shall ensure that correct funds are associated with the correct account number.
- 4.4 BA/DSS shall ensure that the ongoing automated account opening feed is to be available operated and maintained as specified in paragraph 2.3 of Schedule 3 [POCL view (based on current DSS position): for migration of existing benefit recipients only] [ICL view: throughout the operating life of the BPS Service].
- 4.5 BA/DSS is responsible for the timely notification to customers of the change in method of benefit payment, the new Post Office Account terms and conditions and handling any related initial customer enquiries and objections.

[4.6 ICL view: BA/DSS shall resolve any data protection issues associated with making customers' personal details available to Pathway in a manner which shall not affect the Post Office Account opening process or timetable as described in Schedule 3.]

[POCL view: Impact of data protection issues re account opening process to be settled before 10th May.]

B5.0 Pathway Obligations and Responsibilities

5.1 Pathway is responsible for the design, development, implementation, delivery and functioning of the Core System and the BPS to enable POCL to obtain and maintain a deposit-taking licence or exemption under the Banking Act [ICL view: on the assumption that the design architecture of the Core System is capable of satisfying such requirements].

[Parties to consider risk allocation if underlying assumption is incorrect.]

5.2 Pathway is responsible for operating the Post Office Account, including for example the issuing of statements and the closure of accounts (on death and if dormant) and allocation of balances.

5.3 The risk of encashment fraud due to (a) BPS system error, (b) fraud by ICL or Pathway or any of their offices, employees, agents or subcontractors, is the responsibility of Pathway.

5.4 Pathway is responsible for provision to POCL of information from the BPS system for use in assessing repudiated payment claims subject to the limit set out in paragraph 4.5 of Schedule 4.

5.5 Pathway is responsible for the risk of fraud after two minutes elapsed time from receipt of report at helpdesk that a card has been lost or stolen, or a PIN having been disclosed.

5.6 Where Pathway receives BACS information by 4am on any weekday (other than a bank holiday) and to the extent that such information is not the subject of a cancellation order received via BACS by 11am that day, it shall make available to customers the benefit payments to which such information relates on the next weekday (other than a bank holiday) by the later of 7am and the opening of business of the relevant post office.

[ICL view: The facility for late recall or cancellation of account credits has still to be considered and has not been taken into account either within the payments set out in Annex 2 of Schedule 4 (which would require appropriate adjustment) or otherwise.]

- 5.7 The risk of encashment fraud due to card counterfeit or compromise is assumed by Pathway, subject to the agreement between POCL and Pathway as to the design and security features of the card by Pathway.

TABLE B1: ALLOCATION OF RESPONSIBILITY

Process	Party Responsible
Post Office Smartcard Management Service	
Card specification and design	Pathway
Card & PUN manufacture	Pathway
Card & PUN distribution	Pathway
Card issue	Pathway
Customer details	POCL
<ul style="list-style-type: none"> • Updates 	
<ul style="list-style-type: none"> • Changes at counter 	
Customer details	Pathway
<ul style="list-style-type: none"> • Help Desk changes 	
<ul style="list-style-type: none"> • Applying changes 	
Card replacement	Pathway
System failure	Pathway
Procedures – Pathway	Pathway
Procedures - POCL	POCL

<u>POCL Account Services</u>	
Customer notification of change of payment method	BA/DSS
Customer education	POCL, Pathway
Print, distribute mandate	Pathway
Customer details	POCL
<ul style="list-style-type: none"> • Updates • Changes at counter 	
Customer details	Pathway
<ul style="list-style-type: none"> • Help Desk changes • Applying changes 	
Withdrawals - system rules	Pathway
Withdrawals - counter procedures	POCL
Balance management	Pathway
Withdrawal approval within balance	Pathway
Provision of statements (mini-statement from counter and full statement from helpdesk)	Pathway
Account closure - Administration	Pathway
System fallback	Pathway

Administration Services	
Audit SLA monitoring and reporting Invoicing	Pathway Pathway Pathway

SCHEDULE 4Pricing1. Pricing

1. The Updated POCL Agreement will contain provisions to deal with the following:

1.1 the Updated POCL Agreement to extend so as to terminate on the giving by either POCL or Pathway of not less than 18 months notice, such notice to expire no earlier than 31st March, 2010;

1.2 inclusion of the Network Banking Service (as defined in paragraph 4 of Schedule 5);

1.3 POCL to provide funding for PIN pads including extended warranty and installation for PIN pads;

1.4 all availability fees and guaranteed payments to be paid quarterly in advance; and

1.5 the existing pricing regime (based upon periodic price variations) to be replaced with a regime whereby Servicepoint prices are linked to RPI, as follows:

<u>Year Commencing 1 March</u>	<u>Price Adjustment</u>
1999 – 2001	0%
2002 – 2006	RPI – 5%
2007 – 2009	RPI – 2.5%

2. Migration

2.1 Pathway will be held harmless against any net reduction in transaction volumes arising from changes in the frequency of BA payments to customers, or any other action by the DSS or BA which is designed to incentivise BA customers to move to commercial ACT banking; and

2.2 POCL agrees that it will not, before 1st April, 2008, participate in any promotional campaign under which individuals are specifically encouraged to switch from using the BPS to having their benefits paid into a conventional bank account excluding the provision of leaflets and other promotional material under the editorial control of DSS or BA. Nothing in this paragraph 2 shall restrict POCL from promoting the use of conventional bank accounts more generally.

- 2.3 It is acknowledged that the promotion of conventional bank accounts may proceed alongside the exploitation of the Post Office Smartcard as envisaged in the PPP Heads.
3. Payments
- [3.1 The following payments will be made to Pathway by [POCL] as set out in Annex 2 to Schedule 4:
- 3.1.1 abortive development costs;
 - 3.1.2 subcontractor termination costs;
 - 3.1.3 restructuring fee;]
- 3.2 The following payments will be made to Pathway by POCL:
- 3.2.1 development charge as calculated pursuant to paragraph 3.5 of Schedule 4;
 - 3.2.2 availability fee as set out in Annex 2 to Schedule 4; and
 - 3.2.3 transaction charges in accordance with the Scorecard (subject to paragraphs 3.7, 4, 5 and 6 of Schedule 4)..
- 3.3 The following costs and/or fees are excluded from the payments set out in Annex 2 to Schedule 4 and will be charged separately to POCL by Pathway:
- 3.3.1 the costs charged to Pathway under the Girobank subcontract for:
 - (a) providing additional services as described in paragraphs 4 to 11 (inclusive) of Annex A to Schedule 3 ~~which Pathway requires~~ to deliver the BPS; and
 - (b) providing:
 - (i) statements upon request as referred to in paragraph 2.10 of Schedule 3; and
 - (ii) if the exemption from banking regulations referred to in paragraph 2.10 of Schedule 3 is not obtained, quarterly statements as referred to in paragraph 12 of Annex A to Schedule 3.

For the avoidance of doubt, the costs of the services referred to in paragraph 13 (Loss of Personal Identification Number (PIN)) of Annex A to Schedule 3.

are included in the transaction charges referred to in paragraph 3.2.3 of Schedule 4;

[Amount of these costs to be fixed before signing Heads.]

[POCL: to revert.]

- 3.3.2 the costs of the Post Office Smartcard (being its material cost plus the cost of personalisation and initial software loading);
- 3.3.3 a management fee of 5% of the estimated costs [or the cap on such costs] charged to Pathway under the Girobank subcontract referred to in paragraph 3.3.1 of Schedule 4 as estimated at the date of the Updated POCL Agreement; and
- 3.3.4 the charges, if any, by BACS to Pathway in respect of the BACS datafeed to Pathway.
- 3.4 The payments referred to in paragraph 3.1 of Schedule 4 are required to be paid as a single lump sum within 30 days of the Effective Date.
- 3.5 Development Charge

[POCL view:

- 3.5.1 The development charge referred to in paragraph 3.2.1 of Schedule 4 shall comprise the costs reasonably incurred by Pathway for the high level design, detailed design, software development, testing and integration for the BPS on a time and materials basis at chargeout rates of [to be agreed before signing of Heads and to include a rate for full overhead observation].
- 3.5.2 Subject to paragraph 3.5.3 of Schedule 4, at the end of each calendar month during the Development Phase, Pathway shall provide to POCL an invoice (which is to be paid by POCL in accordance with the payment terms in Schedule A10 of the POCL Agreement) for the development charge in respect of costs reasonably incurred by Pathway during that month together with a detailed explanation of such costs.
- 3.5.3 Without prejudice to Pathway's obligations to complete the development of BPS, the total development charge payable shall not exceed £136 million.]

[ICL view: (1) development charge is inclusive but not exhaustive of items in paragraphs 3.5.1; (2) development charge to include specification costs; (3) development charge payable from the date of these Heads; (4) explanation of costs to be brief instead of detailed.]

3.6 The availability fee referred to in paragraph 3.2.2 of Schedule 4 will be payable quarterly in advance, will commence upon Acceptance of the Core System and (subject as provided in paragraph 3.1.2 of Schedule 7) will be phased in pro rata to the number of post offices planned to be installed in accordance with the plan in Annex 3 to Schedule 4. Payment of the availability fee will cease twelve months after commencement of Post Office Smartcard roll-out (such date of cessation being currently assumed to be [1.7.2003]).

3.7 During the period of the availability fee, each of the Scorecard prices will be discounted by 70%.

4. Transaction Metrics and Scorecard

4.1 The transaction metrics will be in accordance with Annex 1 to this Schedule.

4.2 The Servicepoints for Use of Counter Terminal column of the Scorecard at Annex 2 to Schedule A6 of the Authorities Agreement (the "Scorecard") will be increased by 1.1, giving a new figure of 6.7.

4.3 The Servicepoints for the Network Banking column of the Scorecard (assuming an "Agent" interface to LINK and the provision of the communications link to LINK) will be 4, giving a Servicepoint total for withdrawals of 44.8 Servicepoints and for deposits of 27.3 Servicepoints.

4.4 The Servicepoints for BPS (which exclude the new Girobank subcontract services and costs as referred to in paragraph 3.3.1 of Schedule 4) will be 20 Servicepoints giving a total of 42.8 for withdrawals at nominated post offices and 50.8 elsewhere.

4.5 The BPS Scorecard value includes provision for

4.5.1 the number of Post Office Account holders in each calendar year requiring new PIN notices to enable them to reset their PINs [having forgotten their PINs] amounting to 10% of the average number of Post Office Account holders in that year; 10% per annum (on an average year basis) of account holders requiring new PIN notices to enable them to reset their PINs;

4.5.2 1 million on-line enquiries per annum, 7,500 help desk calls made by POCL staff in respect of reconciliation or fraud investigation, both per calendar year per annum by POCL staff in respect of reconciliation or fraud investigation (both on an average year basis); and

4.5.3 the number of Post Office Account holders in each calendar year requiring emergency withdrawals involving the help desk where account holders have lost their Post Office Smartcards or forgotten their PINs amounting to [12%] of the average number of Post Office Account holders in that year, where customers have lost their Post Office Smartcards or forgotten their PINs.

[K. Baines to revert on paragraphs 4.5.3.]

4.6 Where for the purposes of paragraphs 4.5.1 or 4.5.3 of Schedule 4 the number of account holders requiring new PIN notices (as referred to in paragraph 4.5.1), or the number of help desk calls (as referred to in paragraph 4.5.3) in any accounting year is less than or equal to that for which provision has been made as referred to therein no charge shall be made to POCL for such notices or calls. Where in any accounting year the numbers are in excess of those referred to in those paragraphs an additional charge shall be made to POCL for the excess. Such charge shall be [POCL view:] [●] Servicepoints for each additional PIN notice [ICL view: the number of Servicepoints for each additional PIN notice required to enable Pathway to recover the additional costs charged to Pathway under the Girobank subcontract in respect of such additional PIN notices] and [●] Servicepoints for each help desk call, in excess of those for which provision has been so made.

4.7 The charges for the Post Office Smartcard Management Service to support BPS shall be calculated on the basis that the Servicepoints per month for each Post Office Smartcard (excluding the cost of the Post Office Smartcard as referred to in paragraph 3.3.2 of Schedule 4) shall be 70, prior to the adjustment to be made pursuant to paragraph 4.2 of Schedule 7.

5. Discounts

A single discount band will replace those currently set out in Schedule A6 of the Authorities Agreement. Above 120% of forecast volumes aggregated across all services other than the Post Office Smartcard Management Service as set out in the table referred to in paragraph 7 of Schedule 4 a 25% discount will apply to all Scorecard elements other than the Post Office Smartcard Management Service.

6. Guarantees

6.1 POCL will guarantee payments equal to those which would be payable if transaction volumes were at 75% of the current forecast volumes as set out in the table referred to in paragraph 7 of Schedule 4.

6.2 The transaction volume guarantee will commence twelve months after the commencement of Post Office Smartcard roll out.

6.3 The transaction volume guarantee may be met by all the POCL services including APS, EPOSS, BPS, Network Banking Product and any other new products under the PPP Heads or otherwise.

7. Forecast Volumes

The current forecast volumes of transactions are set out in Annex 4 to Schedule 4.

It is acknowledged that no party gives any representation or warranty as to the accuracy or completeness of the figures in Annex 4 to Schedule 4.

ANNEX 1 TO SCHEDULE 4

Transaction Metrics for Charges

It is proposed that transactions should be counted for charging purposes according to the following rules. The default is that 1 customer-facing transaction in reference data = 1 chargeable transaction. The following are the main exceptions:

Transaction items: 1 chargeable transaction per transcash item. For the avoidance of doubt, there will be no chargeable transaction associated with the fee payable on the transcash item.

Postal orders: 1 chargeable transaction per customer session, regardless of number of postal orders sold. For the avoidance of doubt, there will be no chargeable transaction associated with the fee(s) payable on the postal order(s). Where postal stamps are sold to make up the odd amount of a postal order value (e.g. the 27p of a postal order of value £35.27), these stamps will be counted as a chargeable transaction in accordance with the metrics for postal stamps (see below).

Phone cards: Sales of phone cards of the same denomination to be rolled up within a customer session. For example, if a customer buys 2 x £2.00 cards this would be 1 chargeable transaction; however if the customer buys 1 x £2.00 and 1 x £5.00 cards this would be 2 chargeable transactions.

Saving stamps: 1 chargeable transaction per client, per customer session regardless of the quantity and combination of saving stamp values sold. For example, if a customer buys 1 x £2.00 and 2 x £5.00 British Gas saving stamps and 2 x £2.00 BBC licence stamps this would result in 2 chargeable transactions.

Postage stamps: Sales of postage stamps within a customer session to be rolled up into 1 chargeable transaction regardless of quantity and combinations of stamps sold. For the avoidance of doubt, postage stamps includes definitive and special issue stamps of all values, stamp books and postage-paid stationery. It does not include other postal products such as datapost or special delivery. For example, if a customer buys 2 x 1st class, 42p of other postage, 3 x stamp books (10 x 2nd class) and a book of 10 x 1st class stamps, this would be 1 chargeable transaction.

Because it is recognised that the volumes of postage stamp sales in the Workload Brief is subject to statistical uncertainty in deriving the average value of transactions, the charges will if necessary be adjusted retrospectively as follows:

- The actual average value of stamp sales per transaction will be calculated by dividing the total value of stamp sales recorded on Horizon by the number of customer sessions in which stamp sales were recorded.

- The intended average value of stamp sales will be calculated as £2.51 multiplied by the average RPI for the relevant invoicing year and divided by the average RPI for the year ending February 1996.
- The adjusted amount payable for postage stamp sale transactions will be calculated by multiplying the charges by the actual average value and dividing by the intended average value, any under or over payment will be included as an adjustment to the next monthly invoice.
- This adjustment will be calculated annually during the roll-out, and a final adjustment factor, to apply in all subsequent years, will be calculated at the end of the first full invoicing year following completion of roll-out.

Retail items sold over the post office counter: Charged as 1 transaction per line, i.e. 1 item of each of 2 different lines = 2 transactions, 2 of the same line = 1 transaction.

Entry of sales not transacted through Horizon: i.e. postshop, vending, lottery etc. Charged as 1 transaction per batch entry for each product (e.g. 60 lottery ticket sales and 60 vending items = 2 transactions).

Reversals: Where transactions are subsequently reversed, the transaction itself will be chargeable as usual, the reversal will not be chargeable, and any related fresh transaction will be chargeable.

Use of scales: Each price look-up for postage items using the scales link or by manually keyed input will incur a transaction charge for the EPOS Scales transaction in the Day 1 scorecard (scoring under Terminal, EPOS, Scales, SIS batch and no other columns) unless the counter clerk aborts the transaction without proceeding to a subsequent stamp sale transaction. These scales transactions will only be initiated by the clerk selecting them from the screen or keyboard, and will not be initiated by customers placing items on the scales without clerk intervention.

Premium Mails Services: Each item requiring separate entry will count as 1 transaction (e.g. posting 3 datapost packages which require separate recording). Where items are entered as multiples (e.g. posting 2 parcels of the same weight with recorded delivery to the same zone) these will count as a single transaction.

Scales, premium services, and postal order transactions are additional to any related sale of postage stamps, but no more than 1 postage stamp sale will be recorded per customer session regardless of the use of those stamps.

ANNEX 2 TO SCHEDULE 4

Payments to Pathway

POUNDS IN MILLION

Year Ending 31 December

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Scorecard Revenue Unadjusted BPS - BA/POCL transaction volumes @ April 1999*	0	0	1	8	57	104	141	164	166	137	116	107	100	96	29	1227
Scorecard price reduction to eliminate a fixed cost recovery, @ 70%*				0	-40	-73	-99	-115								-327
Abortive Development Costs				50												50
BPC Subcontractor termination costs				30												30
Restructuring Fee				100												100
BPS Development Charge*				2	20	42	36									100
Availability Fee				5	60	115	120	125								425
Total Payments	0	0	1	195	97	188	198	174	166	137	116	107	100	96	29	1606

* The figures shown in these rows are estimates only

ANNEX 3 TO SCHEDULE 4

Rollout Profile

<u>Dates</u>	<u>Number of Post Offices</u>
23/08/99	20
30/08/99	40
06/09/99	60
13/09/99	90
20/09/99	160
27/09/99	180
04/10/99	200
11/10/99	200
18/10/99	200
25/10/99	200
01/11/99	200
08/11/99	200
15/11/99	200
22/11/99	200
29/11/99	0
06/12/99	0
13/12/99	0
20/12/99	0
27/12/99	0
03/01/00	0
10/01/00	180
17/01/00	250
24/01/00	301
31/01/00	334
07/02/00	334
14/02/00	334
21/02/00	334
28/02/00	334
06/03/00	334
13/03/00	334
20/03/00	334
27/03/00	334
03/04/00	334
10/04/00	334
17/04/00	334
24/04/00	334
01/05/00	334
08/05/00	334
15/05/00	334
22/05/00	334
29/05/00	334
05/06/00	334
12/06/00	334
19/06/00	334
26/06/00	334
03/07/00	334
10/07/00	334
17/07/00	334
24/07/00	334

31/07/00	334
07/08/00	334
14/08/00	334
21/08/00	334
28/08/00	334
04/09/00	334
11/09/00	334
18/09/00	334
25/09/00	334
02/10/00	334
09/10/00	334
16/10/00	334
23/10/00	334
30/10/00	334
06/11/00	334
13/11/00	334
20/11/00	334
27/11/00	255
04/12/00	0
11/12/00	0
18/12/00	0
25/12/00	0
01/01/01	0
08/01/01	195
15/01/01	220
22/01/01	220
29/01/01	220
05/02/01	220
Total:	<u><u>18,573</u></u>

Annex 4 to Schedule 4

Transaction Volumes

Millions	Year Commencing April 1	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Orderbook Transactions		789.4	775.8	749.8	696.8	611.6	251.9	7.3	0.0	0.0	0.0	0.0	0.0
Girocheque Transactions		52.0	52.0	52.0	48.9	43.9	18.4	0.5	0.0	0.0	0.0	0.0	0.0
OBCS		7.9	154.0	353.0	627.0	588.1	242.1	7.0	0.0	0.0	0.0	0.0	0.0
BPS													
Transactions		0.0	0.0	0.0	0.0	70.8	316.7	421.0	356.9	281.9	219.0	167.0	126.7
Accounts Opened		0.0	0.0	0.0	0.0	4.7	7.3	1.2	0.3	0.3	0.3	0.3	0.3
Accounts Closed		0.0	0.0	0.0	0.0	0.0	0.9	2.3	2.3	2.0	1.7	1.4	1.1
<u>Cards retained for Modern Government</u>		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>	<u>0.5</u>	<u>0.8</u>	<u>1.2</u>	<u>1.7</u>	<u>2.1</u>
Cards retained for Modern Government <i>(cumulative)</i>		0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.5	0.8	1.2	1.7	2.1
Network Banking													
Inpay		0.0	0.0	0.0	25.7	68.6	85.7	124.3	128.6	132.9	137.1	141.4	145.7
Outpay		0.0	0.0	0.0	17.1	45.7	61.0	98.0	101.5	103.0	104.2	105.8	106.1

[Pathway to explain to POCL the method of determining the volumes in "Cards retained for Modern Government".]

Note: The figures set out in each of the above rows are non-cumulative except where otherwise indicated.

SCHEDULE 5

Timetable

1. Core System Release

1.1 Definitions

1.1.1 The Core System means the core POCL services for the POCL Infrastructure, EPOSS, OBCS and APS, each as defined in the Release Contents Description for NR2 (CCN 251). It does not cover APS for Post Office Smartcards. The POCL services for BES and the BA services for CMS and PAS required to support the benefit payment card, originally in NR2, are not included ~~[POCL view: included]~~ [ICL view: used] in the Core System.

1.1.2 The Core System Release means the Release of the Core System.

1.2 Key Dates for Core System Release

The dates are:

- (a) Core Observation Period to commence 31.5.99 and last for 8 weeks.
- (b) Acceptance Phase to be completed by 16.8.99
- (c) Release authorisation to take place by 23.8.99
- (d) National rollout to commence by 23.8.99
- (e) National rollout to be completed by 30.4.2001
- (f) Final deadline for Acceptance to be 15.11.99

2. The Benefit Payment Service (BPS) Release

2.1 Definition

The outline service description of the Benefit Payment Service (BPS) is defined in Schedule 3.

2.2 Key Dates for BPS Release

2.2.1 Service Specification Phase

Pathway will produce a full service specification for the BPS by 31.10.99 which shall be agreed by ~~for agreement between~~ POCL and Pathway no later than 31.12.99.

During this phase it is the responsibility in accordance with paragraph 5 of POCL to provide Pathway in a timely manner with definitions and details of its processes, business rules and interface definitions (including interfaces with DSS systems required to enable BA/DSS to comply with its responsibilities under paragraph 4.2 of Annex B to Schedule 3) which are relevant to BPS.

If the full service specification for the BPS is not agreed by 31.12.99 then if and to the extent that any delay in so agreeing it is due to a breach by POCL of its obligations under paragraph 5.1 of these Heads, the timetable relating to the BPS shall be extended by a period equal to the delay for which POCL is responsible.

The service specification phase shall end on the date on which the full service specification for the BPS shall have been agreed.

2.2.2 Requirements Authority Notification

Within one month after the date of these Heads,

- (a) POCL shall nominate a senior manager of POCL who shall be empowered to make decisions relating to the service requirements for the BPS and notify Pathway of such person; and
- (b) Pathway shall nominate a senior manager of Pathway who shall be empowered to make decisions relating to the service design for the BPS and notify POCL of such person.

2.2.3 Development Phase

The development phase shall commence immediately following the end of the service specification phase referred to in paragraph 2.2.1 of Schedule 5. During this phase Pathway will complete the high level design, the detailed design and software development for BPS, and carry out the development integration and test activities such that Acceptance of BPS by POCL can be achieved and [Release authorisation] obtained pursuant to Schedule 6.

[Masons to revert]

2.2.4 Roll-out of Post Office Smartcards

Rollout of Post Office Smartcards for use in the BPS will commence following BPS Release authorisation. The current planning assumption, which is reflected in Annex 2 to Schedule 4, is that this will be 1.7.2002.

It is currently planned that full Roll-out of Post Office Smartcards for BPS to existing BA customers will take two years, the migration distribution being 20,000 per day on average and no more than 35,000 on any one day during the first three months and 35,000 per day thereafter, on the basis of a 5 day week and migration by benefit type nationally.

2.3 Acceptance criteria for BPS Release

Acceptance criteria for the BPS Release will be produced by Pathway no later than three months after the end of the Service Specification Phase referred to in paragraph 2.2.1 of Schedule 5 and ~~it is currently planned that these will be formally agreed between Pathway and POCL~~ shall use all reasonable endeavours to agree these criteria within three months after such production by Pathway.

2.4 Final Deadline for Acceptance

Subject to paragraph 2.5 of Schedule 5 the Final Deadline for Acceptance of the Benefit Payment Service is 31.12.2002.

2.5 Extension of Final Deadline

If Acceptance of the Benefit Payment Service is delayed beyond 31.12.2002 as a result of any of the matters set out in paragraphs 3.1.1 (i) to (iv) of Schedule 7 then that Final Deadline for Acceptance shall be extended by a period equal to the delay so caused.

3. **Pathway Release Plan Summary**

3.1 Core System Release (CSR)

As described above this Release is subject to Acceptance and Release authorisation (as referred to in paragraph 4(ii) of Schedule 6) prior to commencement of national Roll-out.

3.2 CSR+

CSR+ will contain the POCL Services for APS (Smart) for Quantum and Watercard (each as defined in Requirements 543(b) and 543(f) in Schedule A15 of the POCL Agreement and the related solution in Schedule A16 of the POCL Agreement) and

the Logistics Feeder Service (LFS) (as defined in CCN249a). This release is subject to Release authorisation only and is currently planned for April 2000.

3.3 R3

This release has not yet been defined or agreed. Possible POCL services are for EFTPOS, DVLA re-engineering, for the introduction of the EURO currency, and for the first phase of POCL Network Banking.

The release will be subject to Release authorisation only and is currently planned for April 2001.

3.4 BPS Release

This release contains the POCL service for the BPS as described in Schedule 3. It will be subject to Acceptance and Release authorisation and is currently planned for between April and June 2002.

3.5 Network Banking Release

This release has not yet been defined or agreed. A preliminary outline service description is set out in paragraph 4 of Schedule 5. The release will be subject to Release authorisation only. POCL and ICL agree to determine by 30.6.2000 ~~when~~ whether to release the first phase of the Network Banking Service in R3 described in paragraph 3.3 of Schedule 5. If no such agreement is reached then the Network Banking Service will be released no later than the actual date of BPS release. [ICL view: Pathway and POCL shall use all reasonable endeavours to agree the full specification referred to in paragraph 4.2 of Schedule 5 in sufficient time for the Network Banking Release to be released no later than the actual date of release of the BPS.]

3.6 Further Releases

These releases have not yet been defined or agreed. They are aimed at early Post Office Smartcard-based services to support the Government White Paper: Modernising Government. These will be defined between Pathway and POCL and will exploit the arrangements described in the PPP Heads.

These releases will be subject to Release authorisation only and are scheduled for 2003.

4. Network Banking Service

4.1 The Network Banking Service will comprise:-

4.1.1 Support for a range of standard branch banking transactions at the post office counter for any bank with which POCL has (now or in the future) a contract for such services.

4.1.2 Provision of on-line and batch communications from the counter to an interface to the banking system which is assumed to be LINK.

4.1.3 The LINK Agent and the connection into LINK.

4.1.4 Management of reference data and business rules needed to support these transactions.

4.1.5 Reconciliation process and supporting MIS to enable POCL to account for transactions to its banking partners.

4.2 A full service specification will be developed by POCL and Pathway for the Networking Banking Service and following the established methodology for defining new business requirements.

SCHEDULE 6

Acceptance

1. Acceptance Testing

1.1 There will be a separate acceptance procedure in respect of each of:-

- (i) the Core System Release (as defined in Schedule 5); and (subsequently);
 - (ii) the Benefit Payment Service Release (as defined in Schedule 5);
- (each an "Acceptance Phase").

1.2 In respect of each Acceptance Phase there will be agreed:-

- (i) a set of acceptance criteria;
- (ii) a set of acceptance specifications;
- (iii) a set of acceptance tests;
- (iv) an acceptance timetable including, inter alia, a Core Observation Period;
- (v) a Final Deadline for Acceptance; and
- (vi) an Operational Trial Review Period (being the three week period immediately following the ~~date~~ end of the {Core Observation Period})

The timetable and dates referred to in this paragraph shall be consistent with those in Schedule 5.

1.3 The acceptance criteria and acceptance specifications for the Benefit Payment Service Release will address, amongst other things, all issues necessary to enable the system to meet the systems requirements of the FSA in order for authorisation to be obtained under the Banking Act and the systems requirements necessary for payments to be received via the BACS system.

2. Requirements for Acceptance

2.1 Subject to any extension pursuant to paragraph 2.4 of Schedule 6, acceptance ("Acceptance") will occur in respect of each Acceptance Phase once:-

- (i) the acceptance tests referred to in paragraphs 1.2(iii) and 2.3 of Schedule 6 have been carried out successfully;

- (ii) the Core Observation Period and the Operational Trial Review Period) have expired;
- (iii) the thresholds referred to in paragraph 2.2 of Schedule 6 have been met as at the end of the Core Observation Period taking into account all substantive faults raised by POCL beyond those defined in the Acceptance Specifications, as described in Paragraph 2.9 of Schedule A7 of the Authorities Agreement (6.1(d) faults); and
- (iv) a timetable has been agreed between the parties to resolve all outstanding category B faults

in each case in respect of that Acceptance Phase.

2.2 The thresholds will not be met if in respect of any Acceptance Phase there are:

- (i) one or more high severity deficiencies (also known as category A faults);
- (ii) more than 20 medium severity deficiencies (also known as category B faults);
or
- (iii) more than 10 medium severity deficiencies in respect of any one Acceptance Specification.

2.3 It is acknowledged that if an acceptance test is repeated following corrective work by Pathway, POCL shall have the right to test for and raise new faults which may be caused by that corrective work or may come to light only as a result of that corrective work.

2.4 It is agreed that, notwithstanding the provisions of paragraph 2.1 of Schedule 6, if at the end of the Core Observation Period all Acceptance Tests have been carried out and the thresholds referred to in paragraph 2.2 of Schedule 6 have not all been met, POCL shall permit Pathway to repeat the relevant Acceptance Tests in the two week period following the end of the Core Observation Period provided that POCL is given sufficient opportunity to review the results of such Acceptance Tests to its reasonable satisfaction prior to the end of the Operational Trial Review Period.

2.5 Subject to paragraph 2.3 of Schedule 6, once all Acceptance Tests have been successfully carried out and the Core Observation Period has expired in relation to any Acceptance Phase, no new faults may be raised for that Acceptance Phase. For this purpose, a "new fault" is a fault which had not occurred before the end of the relevant Core Observation Period and does not include faults which occurred before the end of the Core Observation Period but were not reported until after that date. POCL shall report to Pathway a ~~fault in an~~ Acceptance incident within seven days of the relevant POCL test manager ~~receiving~~ identifying or being notified of the same.

2.6 If, at the end of either Acceptance Phase the parties do not agree as to whether that Acceptance Phase should be accepted, the provisions of paragraph 7 of Schedule 6 shall apply.

3. Consequences of failure to Achieve Acceptance

3.1 If Acceptance is not achieved in respect of either Acceptance Phase at the end of the Operational Trial Review Period for that Acceptance Phase Pathway shall be entitled to a period of three months in which to remedy the defaults, which (subject to paragraph 7.7 of Schedule 6) it shall do at its own expense. Upon the expiry of that period, or at such earlier date as the parties shall agree, the relevant Release shall be re-submitted in its entirety for acceptance testing (the "Second Acceptance Test").

3.2 If Acceptance is not successfully achieved at the end of the Second Acceptance Test in respect of any Acceptance Phase then POCL shall have the right to terminate the Updated POCL Agreement, but without prejudice to all other remedies available to POCL under the Updated POCL Agreement and otherwise and without prejudice to paragraph 3.4 of Schedule 6.

3.3 Upon termination of the Updated POCL Agreement as a result of failure to achieve Acceptance in respect of the Benefit Payment Service Release, paragraph 5.3.3 of Schedule 8 shall apply.

3.4 Schedule C5 of the Authorities Agreement (liquidated damages to a maximum of 13 weeks of delay) shall apply on failure to achieve acceptance of either Acceptance Phase (save that all such liquidated damages shall be payable to POCL).

3.5 If Acceptance of either Acceptance Phase has not been achieved by the Final Deadline for Acceptance in respect of that Acceptance Phase then POCL shall be entitled to serve a notice upon Pathway under this paragraph, whereupon Pathway shall be deemed to have failed the Second Acceptance Test in respect of that Acceptance Phase in accordance with paragraph 3.2 of Schedule 6.

4. Consequences of Achieving Acceptance in Respect of Core System Release

Upon Acceptance of the Core System Release:-

- (i) the availability fee shall commence; and
- (ii) the Release authorisation Board shall decide whether or not to authorise national rollout of the Core System.

5. Consequences of Achieving Acceptance in Respect of the Benefit Payment Service Release

Upon Acceptance of the Benefit Payment Service Release the Release authorisation Board shall decide whether or not to authorise national rollout of the Benefit Payment Service.

6. Appointment of Expert

- 6.1 The parties have agreed to appoint an expert (the "Expert") as soon as reasonably practicable to assist in resolving disputes relating to acceptance.
- 6.2 The Expert shall be Peter Copping of PA Consulting or, if he has a conflict of interest or is unavailable, such other partner of PA Consulting as shall be:
- (i) qualified to resolve such disputes;
 - (ii) independent of both parties; and
 - (iii) approved by both parties, such approval not to be unreasonably withheld.
- 6.3 In the event that no other partners of PA Consulting shall be available and meet the criteria in paragraphs 6.2(i) and (ii) of Schedule 6, the Expert shall be appointed at the request of POCL or Pathway by the President for the time being of the Institute of Electrical Engineers so long as such appointee shall meet the criteria in paragraphs 6.2(i) and (ii) of Schedule 6.
- 6.4 The Expert shall act as an expert and not an arbitrator and his fees shall be borne by the parties in equal shares.

7. Acceptance Disputes

- 7.1 If paragraph 2.6 of Schedule 6 applies and/or POCL and Pathway do not agree on:
- (i) the Acceptance Specifications for either Acceptance Phase;
 - (ii) whether an event or occurrence is an Acceptance Incident; or
 - (iii) the assigned severity of an Acceptance Incident;

the parties will refer such dispute (the "Dispute") to the Expert to obtain initial guidance. The parties do not expect that the identification and notification of the Dispute, reference of the Dispute to the Expert and obtaining his initial guidance should take longer than seven days.

- 7.2 Once the Expert has given to the parties his initial guidance on the Dispute, the Managing Director of POCL and the Commercial Director of ICL shall meet and attempt to resolve the Dispute with the advice and guidance of the Expert.
- 7.3 If the Dispute is not resolved during the meeting pursuant to paragraph 7.2 of Schedule 6, then the Expert shall be required to make a decision (the "Decision") as to how the Dispute should be resolved.
- 7.4 Once the Decision has been made, the Managing Director of POCL and the Commercial Director of ICL shall meet to review and respond to the Decision.
- 7.5 The Decision shall be binding unless vetoed by POCL in accordance with paragraph 7.6 of Schedule 6.
- 7.6 POCL may veto the Decision if:
- (a) POCL disagrees with the Decision and provides to Pathway written reasons for such disagreement; and
 - (b) asserts a Veto Ground (as defined in paragraph 7.8 of Schedule 6).
- 7.7 If POCL vetoes the Decision, the Managing Director of POCL and the Commercial Director of ICL shall meet and attempt to resolve the Dispute. If they fail to resolve the Dispute within three working days of either party requesting a meeting for that purpose then the Chief Executives of the Post Office and of ICL shall meet and attempt to resolve the Dispute. However, unless and until otherwise agreed, the veto will stand.
- 7.8 Each of the following shall be a Veto Ground, namely if the issue:-
- (i) materially affects POCL's ability to settle with clients in a timely and accurate way;
 - (ii) materially affects POCL's ability to transact with sub-postmasters in a timely and accurate way;
 - (iii) is likely to materially and adversely affect POCL customers in areas covered by service level agreements;
 - (iv) materially affects critical operational processes necessary for the running of POCL;
 - (v) materially compromises the integrity of Post Office accounting systems; or
 - (vi) is likely to lead to the qualification of Post Office Accounts or those of its subsidiary companies.

- 7.9 If POCL vetoes a Decision and that Decision was in favour of Pathway then subparagraph 3.1 of Schedule 6 shall apply save that the direct costs of and associated with such extra work as shall be required as a consequence of the exercise of the veto shall be dealt with in accordance with paragraph 7.10 of Schedule 6. If, but for POCL vetoing a Decision in favour of Pathway, acceptance would have been achieved, and the acceptance test in question was the Second Acceptance Test, it shall be deemed to have been the first.
- 7.10 The direct costs of and associated with the extra work referred to in paragraph 7.9 of Schedule 6 shall initially be borne by POCL. However, POCL shall be entitled to refer the Expert's decision in relation to the Dispute to an arbitrator in accordance with paragraphs 7.11 and 7.12 of Schedule 6. If the arbitrator rules in favour of POCL in respect of the Dispute then Pathway shall, within seven days of the arbitrator's decision, refund to POCL the amount so borne by POCL, together with interest thereon from the date when the Dispute was referred to the arbitrator until the date of payment thereof at a commercial rate determined by the arbitrator.
- 7.11 Any matter referred to arbitration by POCL pursuant to paragraph 7.9 of Schedule 6 shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce ("ICC") by one arbitrator appointed in accordance with the said rules (or under such other arbitration procedure as the parties shall agree).
- 7.12 The place of arbitration shall be London, the governing law of the arbitration shall be English and the language of the arbitration shall be English.

SCHEDULE 7

Commercial Matters

1. Infrastructure programme in post offices

- 1.1 In respect of the cost of site preparations in and modifications to post offices Pathway and POCL have agreed (i) a budget and contributions thereto and (ii) the allocation of responsibility as to which party is to bear the cost of actual costs exceeding budget costs as set out in Annex 1 to this Schedule.
- 1.2 In addition Pathway will provide flat screens in all non-crown post offices for no additional charge.
- 1.3 The reasonable costs of maintaining power supply at National Lottery node post offices are to be borne by Pathway.
- 1.4 The costs of PIN pads are not included in the above costs and will be dealt with in accordance with paragraph 1.3 of Schedule 4.
- 1.5 {POCL shall use its reasonable endeavours to assign to Pathway its rights and obligations under the contract with BT in relation to ISDN lines.}

2. Training

- 2.1 Pathway shall provide training for POCL staff and sub-postmasters in the use of the Core System in accordance with CCN 286(c), as modified to take account of the removal of the benefit payment card and to provide POCL with training to a value equivalent to the costs saved under CCN 286(c) as a result of the removal of the Benefit Payment Card.
- 2.2 In addition, Pathway shall provide further training free of at no additional charge in respect of the BPS to a value of £15 million. Such training will be provided on the same basis (including, without limitation, for charging) as the training described in CCN 286(c) and will comprise half-day courses. [The costs of any further training which may be required in addition to that provided in respect of savings against CCN 286(c) and the £15 million referred to in this paragraph shall be borne by POCL. If the costs of training are less than the total of the savings against CCN 286(c) and the £15 million referred to in this paragraph, the difference shall be credited to POCL.]

3. Rollout delays

- 3.1 If Rollout of either the Core System or the Benefit Payment Service is changed or delayed from the agreed procedure and/or timetable:

3.1.1 to the extent that such change or delay is caused by:

- (i) the Default of POCL;
- (ii) default by BA in performing under any contract with POCL its obligations referred to in paragraph 4 of Annex B to Schedule 3;
- (iii) any failure or delay by POCL in obtaining a deposit-taking licence or exemption under the Banking Act as a result of POCL's default or shortcoming; or
- (iv) any failure or delay by POCL in being admitted to participate in the BACS system as a result of POCL's default or shortcoming

Pathway will be entitled to a time and cost adjustment to compensate for such change or delay.

3.1.2 to the extent that such change or delay is caused by:

- (i) the Default of Pathway;
- (ii) default by Girobank in performing under any contract with Pathway its obligations in respect of the BPS;
- (iii) any failure or delay by POCL in obtaining a deposit-taking licence or exemption under the Banking Act as a result of any deficiency, or delay by Pathway, in connection with the design, development, implementation, delivery or functioning of the Core System or the system for delivering the BPS; or
- (iv) any failure or delay by POCL in being admitted to participate in the BACS system as a result of any deficiency, or delay by Pathway, in connection with the design, development, implementation, delivery or functioning of the Core System or the system for delivery of the BPS

POCL will be entitled to a time and cost adjustment to compensate for such change or delay. In addition, where Rollout of the Core System is so delayed the phasing in of payment of the availability fee under paragraph 3.6 of Schedule 4 shall be in accordance with the actual installation of the Core System in post offices and not the planned installation.

3.1.3 to the extent that compensation is not payable under paragraphs 3.1.1 or 3.1.2 of Schedule 7, such costs will lie where they fall.

3.2 In the event of any such change or delay as referred to in paragraph 3.1 of Schedule 7 then for the purpose of determining and resolving to what extent each party is at

fault (if at all) and the time and cost adjustment applicable the following procedure will apply:

- 3.2.1 within seven days of a request by either of them, the Managing Director of POCL (or any equivalent executive) and the Commercial Director of ICL shall meet to resolve these issues. In the event that these issues are not resolved to the satisfaction of both parties in so meeting then;
- 3.2.2 within seven days of a request by either of them, the Chief Executive of the Post Office and the Chief Executive Officer of ICL shall meet to resolve these issues. In the event that these issues are not resolved to the satisfaction of both parties in so meeting then;
- 3.2.3 the Chief Executive of the Post Office and the Chief Executive Officer of ICL shall together decide how any remaining dispute should be resolved, whether by reference to binding expert determination, mediation, arbitration, or such other means as agreed upon by both parties.

4. In office data migration

- 4.1 POCL will be responsible for delivery of in office data migration and the parties shall work together in good faith and use all reasonable endeavours to complete by 30th June, 1999 the specification for such delivery (such specification to be based on the existing draft sub-contract) and service levels associated with such delivery. In return Pathway will grant to POCL an aggregate discount of £5 million from its fees, phased over time ~~based on the~~ in proportion to the number of post offices in which the Core System is installed.

[Parties to consider issue relating to provision of laptops and training.]

- 4.2 POCL will be responsible for the issue of Post Office Smartcards to its customers and the parties shall work together in good faith to complete the specification for Post Office Smartcard issue based upon the existing draft sub-contract, prices and service levels associated with the issue of the benefit payment card. In return, Pathway will adjust the Servicepoints for the Post Office Smartcard Management Service to support BPS such that the NPV of the charges for the Post Office Smartcard Management Service would equal the NPV of the charges that would have been payable for CMS at 70 Servicepoints for Post Office Smartcard per month net of the NPV of the charges that would have been payable to POCL under the card issue sub-contract. For the purposes of this paragraph, the discount rate for calculating NPV is to be 8.5% and all calculations are to be at forecast volumes and pre-VAT.

5. Technology refresh

- 5.1 The parties acknowledge that Counter Equipment will require upgrading and/or replacement ("Technology Refresh"). For the avoidance of doubt, where additional

equipment is provided for the provision of new services, such additional equipment may be subject to technology refresh requirements of its own but this paragraph 5 shall not apply to such additional equipment.

- 5.2 To the extent that POCL and Pathway agree that it is necessary, Technology Refresh may commence prior to 1 January 2006. From 1 January 2006 Pathway may require Technology Refresh to take place.
- 5.3 When, in Pathway's opinion, Technology Refresh is necessary in respect of Counter Equipment, Pathway shall provide POCL with the following information:
- (i) a list of the Counter Equipment which Pathway reasonably considers should be upgraded and/or replaced;
 - (ii) a detailed specification of the upgrade required for each type of Counter Equipment required to be upgraded and the replacement required for each type of Counter Equipment required to be replaced;
 - (iii) the timetable for such upgrade and/or replacement which may be twelve months or less, if the specification referred in paragraph 5.3(ii) of Schedule 7 does not require any [significant] counter work or modifications; and
 - (iv) an estimate of the overall costs of such upgrade and/or replacement based upon (unless POCL agrees otherwise):
 - (a) quotations from two alternative suppliers for the costs of supply of suitable upgrades for, or replacement, Counter Equipment; and
 - (b) quotations from two alternative suppliers for the costs of services associated with upgrading and/or replacing Counter Equipment such as hanging, delivery and installation services; and
 - (c) an estimate of Pathway's reasonable costs of providing testing (which includes integration and emission testing) and integration services.
- 5.4 The details provided pursuant to paragraphs 5.3 (i) and (ii) of Schedule 7 shall:-
- (i) be such as shall be commensurate with a Technology Refresh no more costly than is necessary to bring the Counter Equipment to levels of functionality, reliability and performance which bear the same relationship to the standards then prevailing in respect of equivalent equipment in the retailing and branch banking sectors, as the Counter Equipment bore to the said standards prevailing in those sectors at the date of these Heads; and
 - (ii) take into account the effects of any prior replacement of, or addition to, the Counter Equipment.

- 5.5 The costs relating to the Technology Refresh shall be dealt with as follows:
- 5.5.1 the costs described in paragraph 5.3(iv) of Schedule 7 shall be borne by POCL;
 - 5.5.2 the costs of any upgrade or replacement equipment required with respect to Technology Refresh in respect of central equipment (including, without limitation, data centre equipment and ISDN lines to post offices) shall be borne by Pathway;
 - 5.5.3 the costs payable directly to Pathway in respect of Technology Refresh shall be reasonable; and
 - 5.5.4 the costs for goods and services provided by third party suppliers shall be provided to POCL at their cost to Pathway after deduction of all available discounts and volume rebates applicable thereto.
- 5.6 POCL may at its option, for the purposes of Technology Refresh, contract with third party suppliers approved by Pathway (such approval not to be unreasonably withheld), or with Pathway for:
- (i) the supply of upgrades to, or replacement, Counter Equipment (which shall comply with the standards referred to in paragraph 5.4 of Schedule 7); and
 - (ii) the services associated with Technology Refresh referred to in paragraph 5.3(iv)(b) of Schedule 7.

However, the testing and integration services associated with Technology Refresh referred to in paragraph 5.3(iv)(c) of Schedule 7 shall be carried out by Pathway.

- 5.7 POCL and Pathway shall agree a timetable to be included in the Updated POCL Agreement which shall commence with the provision by Pathway to POCL of the information referred to in paragraph 5.3 of Schedule 7 and end on the date when Technology Refresh is due to commence (which, for the latter date, shall be no sooner than 1st January, 2006 unless POCL otherwise agrees). The timetable will include reasonable periods for, *inter alia*, each of the following to occur in the following sequence:-
- (i) POCL evaluating and deciding to accept the Pathway proposal or to seek alternative quotations;
 - (ii) POCL obtaining alternative proposals and deciding whether to accept the Pathway proposal or a proposal from another supplier;
 - (iii) if POCL chooses an alternative supplier, Pathway deciding whether to approve such alternative supplier; and

- (iv) POCL negotiating and awarding a contract with the alternative supplier and the supplier having made all arrangements for the commencement of supply.
- 5.8 POCL and Pathway shall use their respective reasonable endeavours to comply with the timetable referred to in paragraph 5.7 of Schedule 7.
- 5.9 Pathway shall not be liable to pay POCL compensation in respect of downtime under any service level requirement caused by the installation or delayed installation (other than where such delay is caused by Pathway), of Counter Equipment or the failure to install Counter Equipment (other than where such failure is caused by Pathway), of Counter Equipment pursuant to the Technology Refresh by a contractor other than Pathway, ICL or another member of the ICL Group (an "ICL Contractor").
- 5.10 Pathway's obligations to maintain the Counter Equipment shall not extend to its bearing the cost of remedial work arising as a result of faulty installation of Counter Equipment by a contractor other than Pathway, ICL or another member of the ICL Group under the Technology Refresh, unless such faulty installation results from any deficiency in the specification for such installation work provided by Pathway pursuant to paragraph 5.3(ii) of Schedule 7.
- 5.11 Where pursuant to paragraph 5.6(i) of Schedule 7 POCL exercises its option to contract with a third party supplier to supply upgrades to, or replacement of, Counter Equipment, POCL shall use its reasonable endeavours to procure that such third party supplier offers to Pathway warranties in respect of such Counter Equipment with the cost of such warranties to be borne by Pathway.
- 5.12 Where pursuant to paragraph 5.6(ii) of Schedule 7 POCL contracts with a third party supplier for the installation of Counter Equipment and such third party supplier shall not have installed the Counter Equipment within [] weeks of the timetable referred to in paragraph 5.3(iii) of Schedule 7, then Pathway may at its option on [] weeks written notice, to the extent that the Counter Equipment has not been installed, complete the installation of that Counter Equipment with POCL bearing Pathway's reasonable costs in doing so.

6. Dispute Escalation

Save in relation to Acceptance Disputes referred to in Schedule 6 any dispute between the parties arising from or in connection with the interpretation or implementation of these Heads or the Updated POCL Agreement will be dealt with in accordance with the dispute escalation procedure referred to in paragraph 3.2 of Schedule 7.

7. Customer Education

[POCL and Pathway shall consult with Pathway each other as to how to provide customer education to facilitate the migration from benefit payment books to the

BPS as referred to in paragraph 2.3 of Schedule 3. Unless otherwise agreed, Pathway shall provide such customer education. To the extent that Pathway provides such customer education with a value of less than £7 million- Pathway shall contribute £7 million less such value [(which amount is net of Pathway's sunk costs to date associated with customer education)] to the costs of such customer education. The agreed costs of customer education which may be required in addition to that provided in respect of the £7 million referred to in this paragraph shall be borne by POCL. To the extent that the costs of such customer education are or the value of such customer calculation provided by Pathway is, less than £7 million, Pathway shall credit corresponding savings to POCL.

ANNEX A TO SCHEDULE 7**Management of Site Preparation and Modification Costs****1. Pathway Responsibilities**

Pathway will be responsible for all site preparation and modification costs (the "infrastructure programme") other than those covered by the POCL contributions pursuant to paragraph 2 of this Annex and for which POCL is to be responsible pursuant to paragraph 3 of this Annex.

In this Annex, "Modified Total Infrastructure Costs" means the total costs incurred under the infrastructure programme (excluding payments made or to be made by POCL pursuant to paragraph 3 of this Annex).

2. Contributions

- 2.1 Of the first £34 million of the Modified Total Infrastructure Costs, Pathway will ~~meet~~ pay £29 million and POCL will ~~meet~~ pay £5 million.
- 2.2 ~~If~~ The £5 million which POCL is required to ~~meet~~ pay pursuant to paragraph 2.1 of this Annex is to be phased over time in proportion to the number based on the proportion of post offices made ready for installation. Also, Pathway and POCL acknowledge that of this £5 million, £512,267 has been allocated to meeting the costs of aborts, suspends and revisits, relating to site preparation and surveys at any post office, and £39,147 has been allocated to meeting the costs of out of hours work for standard sub-post offices (excluding the 100 largest standard sub-post offices) relating to site preparation and modifications, together totalling £551,414.00.
- 2.3 ~~Subject to paragraph 2.5 of this Annex, if the agreed forecasts of the Modified Total Infrastructure Costs exceed £34 million, POCL will pay the next~~ meet the next £5 million, ~~£4 million, of which will~~ such payment to be phased pro rata to the number of post offices installed.
- 2.4 If the Modified Total Infrastructure Costs exceed £38 million POCL and Pathway will determine the approximate number of weeks which will be required to complete the infrastructure programme, and POCL will pay a further the remaining £1 million of ~~the £5 million referred to in paragraph 2.3 of this Annex~~ on a weekly basis evenly over the period so determined for the forecast completion of the infrastructure programme.
- 2.5 If, on the CS Completion Date, the Modified Total Infrastructure Costs are:
- 2.5.1 less than or equal to £34 million, Pathway will pay POCL by way of refund £4 million;

- 2.5.2 greater than £34 million but less than or equal to £38 million, Pathway will pay POCL by way of refund an amount equal to £38 million less the Modified Total Infrastructure Costs;
- 2.5.3 greater than £38 million but less than or equal to £39 million, Pathway will pay to POCL by way of refund an amount equal to £39 million less the Modified Total Infrastructure Costs; and
- 2.5.4 greater than £39 million, Pathway will not be obliged to make a payment to POCL by way of refund in respect of the Modified Total Infrastructure Costs.

Any payment to be made by Pathway to POCL pursuant to this paragraph shall be made within ~~7~~30 days of the CS Completion Date.

3. POCL Excess Costs

Pathway shall keep and make available appropriate records to verify:

- (a) those costs of the infrastructure programme which are to be borne by POCL;
and
- (b) Pathway's forecasts of the Modified Total Infrastructure Costs referred to in paragraph 2.3 of this Annex.

3.1 Electrical work

In accordance with Annex 4 to Schedule A06 of the Authorities Agreement, Pathway shall bear the costs of the electrical work for new distribution boards and earthing in post offices in the first 10,000 post offices in which there is a requirement for such distribution board or earthing work to be carried out. Thereafter POCL shall bear such costs. [Without prejudice to POCL's obligation to bear such costs, an estimated cost to POCL of £1.1 million for such work has been derived from an estimate that such work will be required in altogether 14,273 post offices and that such work in the final 4,273 of such post offices will cost on average £257 per post office.]

Also in accordance with Annex 4 to Schedule A06 of the Authorities Agreement, POCL shall be liable to reimburse Pathway any payments made to regional electricity boards to carry out final connections to the power supply at any post offices.

3.2 Cost thresholds

3.2.1 In respect of any post office to be modified, where the estimated cost of modification work (excluding site preparation work) does not exceed the threshold (the "Cost Threshold") for that post office set out below based on the number of counter positions in that post office:

- (i) one counter position - £2,500 per counter;
- (ii) two counter positions - £1,800 per counter; and
- (iii) three or more counter positions - £1,200 per counter

then Pathway shall carry out the modification work in accordance with the ~~agreed timetable~~, set out in Annex 3 to Schedule 4.

3.2.2 In respect of any post office to be modified, where the estimated cost of modification work (excluding site preparation, survey and re-survey work) exceeds the Cost Threshold for that post office then:

- (a) Pathway shall promptly notify in writing to POCL of the Financial Accounting Division ("FAD") code, the name and the location of that post office, the number of counter positions at that post office and the estimated cost of modification work and a scope of the proposed works; and
- (b) Pathway shall not carry out any modification work for that post office without the prior written consent of POCL pursuant to paragraph 3.2.3 of this Annex and on receipt of such consent shall carry out the type of modification specified by POCL.

3.2.3 Following receipt by POCL of a written notice from Pathway pursuant to paragraph 3.2.2(a) of this Annex, POCL shall, in respect of a post office with:

- (a) four or more counter positions, determine whether or not to modify that post office, and what modifications are to be carried out within the scope of modifications to which the estimated costs relate;
- (b) exactly three counter positions, determine whether that post office is to:
 - (i) be relocated to new premises which or refurbished by POCL or its sub-contractors so that such refurbished premises, shall require no modifications and not more than standard site preparation;

- (ii) have its number of counter positions reduced to two; or
 - (iii) be modified as is; and
- (c) exactly one or two counter positions, determine whether that post office is to be:
- (i) closed;
 - (ii) relocated to new premises ~~which~~ or refurbished by POCL or its sub-contractors so that such refurbished premises, shall require no modification and not more than standard site preparation; or
 - (iii) modified as is

and notify Pathway of such decision in accordance with paragraph 3.2.4 of this Annex.

3.2.4 In the case of a post office which POCL wishes to be dealt with in accordance with:

- (a) paragraphs 3.2.3(a), 3.2.3(b)(ii), 3.2.3(b)(iii) or 3.2.3(c)(iii) of this Annex, POCL shall use its reasonable endeavours to notify Pathway of such decision within four working days of the date of receipt by POCL of the notice relating to that post office from Pathway pursuant to paragraph 3.2.2(a) of this Annex. If POCL does not notify Pathway within such notice period, POCL shall be liable to Pathway for the additional costs which Pathway shall have incurred solely as a result of modification work at that post office being done ~~{more than four working days}~~ later than had been originally scheduled but excluding all costs arising out of Pathway failing to notify promptly POCL pursuant to paragraph 3.2.2(a) of this Annex; and
- (b) paragraphs 3.2.3(b)(i), 3.2.3(c)(i) or 3.2.3(c)(ii) of this Annex, POCL shall provide Pathway with [sufficient notice as is consistent with the operational requirements of the infrastructure programme].

3.2.5 In respect of post offices to which paragraph 3.2.2 of this Annex applies, the parties have assumed that:

- (a) all four counter position post offices will be modified;
- (b) the numbers of three counter position post offices modified pursuant to each sub-paragraph of paragraph 3.2.3(b) of this Annex shall be equal; and

- (c) the numbers of one or two counter position post offices modified pursuant to each sub-paragraph of paragraph 3.2.3(c) of this Annex shall be equal.
- 3.2.6. POCL shall bear those reasonable costs in respect of the post offices to be modified which exceed the Cost Threshold. POCL shall also bear those reasonable costs that may arise and shall benefit from any savings that may arise as a result of any of the assumptions in paragraph 3.2.4 of this Annex being incorrect. Any such benefit shall be credited to POCL in the invoice for the calendar month in which the POCL decision giving rise to that benefit shall have been made. ~~POCL shall bear those reasonable costs which shall both (a) exceed the aggregate of the Cost Thresholds in respect of the post offices to be modified and (b) arise as a result of any of the assumptions in paragraph 3.2.5 of this Annex being incorrect.~~
- 3.3 Aborts, Suspend and Revisits and Out of Hours Work at Standard Sub-Post Offices
- 3.3.1 Of the costs of site preparation aborts, suspend and revisits at any post office, and the costs of out-of-hours work at standard (i.e. non-franchise) sub-post offices (excluding the 100 largest standard sub-post offices), which exceed £551,414 as referred to in paragraph 2.2 POCL shall bear such of those costs as are specified in paragraph 3.3.2 of this Annex.
- 3.3.2 The costs referred to in paragraph 3.3.1 of this Annex which are to be borne by POCL are:
- (a) the costs of aborts, suspend or revisits which are caused by POCL or its sub-postmasters or franchisees and are recorded as such on the implementation programme database;
 - (b) that proportion of the cost of aborts, suspend or revisits based on the extent of responsibility of POCL to the overall responsibility as agreed by POCL and Pathway, or failing such agreement as agreed by the Programme directors of POCL and Pathway, or failing such agreement POCL and Pathway will bear such costs equally. POCL will not be responsible for the costs of the suspension of offices that are classified as no fixed counters ("NFC"); and
 - (c) the cost of out-of-hours work due to at any standard sub-post office which (other than the 100 largest standard sub-post offices) does not permitting continuous access between 8.00 a.m. and 6.00 p.m. on weekdays (excluding bank holidays) or does not permit work to be done in accordance with the document "Mitigating Disruption in Post Offices During Preparation Activities", ref IM/STR/057-version 1.0 dated 19.04.99.

3.4 Other excess site preparation costs

POCL shall bear those costs of out of hours work and revised (at POCL's request) processes as compared with what is stated in the document "Mitigating Disruption in Post Offices During Preparation Activities", ref IM/STR/057 version 1.0 dated 19.04.99 [*copy to be initialled for identification*]) for site preparation for the 100 largest standard sub-post offices, all branch offices and franchise offices, which exceed £715,876.

SCHEDULE 8

Termination and Related Matters

1. Conditions

- 1.1 The changes in this Schedule will not come into operation until Acceptance of the Core System has taken place.

2. Termination by POCL

- 2.1 Termination of the Updated POCL Agreement by POCL will be as currently set out mutatis mutandis in the Related Agreements. However, the parties will review and seek to agree:

- (i) changes to the trigger events for termination (to ensure materiality); and
- (ii) what constitutes serious or persistent breaches of service levels.

- 2.2 "Force Majeure" is to be defined by strict reference to the draft Treasury Guidelines, which define Force Majeure as:

- War, civil war, armed conflict or terrorist attack affecting the United Kingdom; or
- Nuclear, chemical or biological contamination; or
- the effect of pressure waves caused by devices travelling at supersonic speeds.

Force Majeure conditions would only apply if the above events occurred and resulted directly in Pathway being unable to perform its contractual obligations. In such circumstances, Pathway would take all reasonable steps to mitigate any loss suffered by Pathway and not claim relief from liability unless the effect of Force Majeure events prevented Pathway from being materially able to comply with its contractual obligations and the parties could not agree within an agreed period of between 3 and 12 months as to how to continue with the Updated Project.

3. Partial Termination

- 3.1 POCL's existing rights to terminate a part, rather than the whole; of the Project under the Related Agreements shall not apply to the Updated Project except in relation to OBGS.

- 3.2 If POCL terminates only OBCS then it shall pay to Pathway on the date of such termination by way of compensation an amount equal to the NPV (discounted at 8.5% per annum) of:
- (i) the Scorecard revenue that would have been earned by Pathway but for termination of OBCS assuming the higher of (a) forecast transaction volumes as set out in Annex 4 to Schedule 4 and (b) actual volumes;
- less the sum of:
- (ii) the Scorecard revenue that would be expected to be earned through the substitution of OBCS transactions with other POCL transactions; and
 - (iii) the marginal cost savings as a result of termination of OBCS.
- 3.3 If there is termination of OBCS by POCL, there will be a step-down in the guaranteed payments and the availability fees by an amount equal to 75% of the payments for OBCS at forecast transaction volumes as set out in Annex 4 to Schedule 4.
- 3.4 [Payment of the amount referred to in paragraph-3.2 of Schedule 8 shall be made net of any set-off in respect of any claim whatsoever and without prejudice to any other claim and liabilities arising as a result of the termination.]

4. Pathway's Right to Terminate

- 4.1 Pathway may terminate the Updated POCL Agreement if:
- (i) POCL fails to pay an amount which it is required to pay under the Updated POCL Agreement, which amount is in excess of:
 - (a) £30,000,000; or
 - (b) an amount equal to the guaranteed payments or the availability fees due over the most recent complete calendar quarterwhichever is the higher (such amount being net of any amounts owing by Pathway at the time such amount became due and that POCL [POCL view: has a bona fide claim to set off] [ICL view: is entitled to set off (which amount is not the subject of any bona fide dispute between POCL and Pathway)] under the terms of the Updated POCL Agreement), within 45 days of a written reminder having been received from Pathway, and which amount is not the subject of any bona fide dispute between POCL and Pathway;
 - (ii) Force Majeure occurs (and Pathway has taken all reasonable steps required to mitigate its loss); or

- (iii) POCL expropriates any of Pathway's assets (so as to impair materially Pathway's ability to perform its obligations under the Related Agreements and subject to POCL having the right to take whatever steps it considers necessary to remedy the expropriation after a reasonable notice period).

5. Compensation on Termination

- 5.1 For clarification, this section addresses the circumstances in which compensation payments are made to Pathway (or the lenders) from POCL. Provisions regarding compensation payments from Pathway to POCL shall remain as currently stated in the Related Agreements as adjusted to take into account these Heads including the pricing arrangements set out in Schedule 4.

The following definitions in the proposed compensation payment regime will apply:

"Contracted Services" means the services comprising the Core System Release, the BPS and any other services (including, without limitation, any services arising under the PPP Heads) contracted to be provided over the Core System as at the date of termination.

"CS Completion Date" means the date by which Roll Out of the Core System has been completed to at least 99% of post offices in number and at least 99% of forecast transaction volumes as set out in Annex 4 to Schedule 4.

[Definition of Project Assets not agreed.]

[POCL view: "Project Assets" means at any date the assets comprising the Core System and the BPS which are not as at that date already owned by POCL (which for the avoidance of doubt shall include not only the physical assets but also IPR (which, in the case of IPR which is either owned by or licensed to Pathway, shall be either (a) where possible, an assignment of such IPR to POCL or its nominated sub-contractor or (b) a licence to use such IPR in favour of POCL and its sub-contractors with such licence being, without limitation, perpetual, irrevocable, and free of charge, and permitting use of such IPR by members of the Post Office Group and End Users (as both of those terms are defined in the Related Agreements)), licences, rights and obligations under the contract with BT in relation to ISDN lines and any other contracts or information required to operate the Core System and the BPS) and any other assets necessary to enable POCL or its sub-contractors to perform the Contracted Services in accordance with the Updated POCL Agreement.]

[ICL view: "Project Assets" means:

- (i) the hardware which POCL has the option to purchase under Clause 904.1.1 of the POCL Agreement; the non-exclusive licence which POCL has the right to acquire under Clause 904.1.2 of the POCL Agreement; the rights in respect of non-employment agreements which POCL is entitled to exercise under Clause

904.1.3 of the POCL Agreement; and the rights in respect of software and other items which POCL is entitled to exercise under Clause 904.1.4 of the POCL Agreement; and

- (ii) the equivalent hardware, licence and rights which DSS has the option to purchase, acquire or exercise under the equivalent terms of the DSS Agreement

in each case, to the extent that the same apply to, and are required for the operation of, the Core System and/or BPS.]

5.2 Termination for convenience and Termination on POCL Default

If there is termination for convenience by POCL or termination on POCL Default, then the compensation paid to Pathway by POCL shall be the aggregate of:

- (i) all audited sunk costs incurred by Pathway relating to the Updated Project (including, without limitation, capital costs of equipment, software costs, licences, sub-contract, costs, development costs, training costs, installation costs, overhead costs, support costs and accrued interest) which have not previously been recovered from POCL;
- (ii) audited costs which would not have been incurred by Pathway but for termination of the Updated POCL Agreement (including breakage costs of any funding and hedging arrangements of Pathway) subject to Pathway taking all reasonable steps to mitigate such costs; and
- (iii) 15% of the expected future availability fees and Scorecard revenues (discounted at a rate of 8.5% per annum) assuming forecast transaction volumes as set out in Annex 4 to Schedule 4.

In consideration for the payment of the above amount, Pathway shall ~~deliver~~ transfer to POCL the Project Assets and ~~all right and title to them, free of any encumbrances~~ in accordance with paragraph 8.1 of Schedule 8.

5.3 Compensation on Pathway Default

5.3.1 Prior to acceptance of the Core System on termination of the Updated POCL Agreement as a result of Default by Pathway, Pathway's insolvency or a change in control of Pathway, no compensation will be payable by POCL to Pathway.

5.3.2 After acceptance of the Core System but prior to the CS Completion Date, on termination of the Updated POCL Agreement as a result of Default by Pathway, Pathway's insolvency or a change in control of Pathway, the

termination provisions of the Related Agreements as at the date of these Heads shall apply.

5.3.3 Following CS Completion Date, on termination of the Updated POCL Agreement as a result of:

- (i) Pathway's failure to achieve acceptance of the BPS, then Pathway shall transfer/deliver to POCL the Project Assets and all right and title to them, free of any encumbrances in accordance with paragraph 8.1 of Schedule 8 in consideration of paying to Pathway the Value Payment; or

[ICL view:

- (ii) any other Default by Pathway, Pathway's insolvency or a change in control of Pathway, then
- (a) if Acceptance of the Benefit Payment Service Release has taken place then Pathway shall deliver/transfer to POCL the Project Assets and all right and title to them, free of any encumbrances in accordance with paragraph 8.1 of Schedule 8 in consideration of paying to Pathway the Value Payment; or
- (b) if Acceptance of the Benefit Payment Service Release has not taken place then POCL will have the option to require Pathway to deliver to POCL the Project Assets and all right and title to them, free of any encumbrances in consideration of paying to Pathway the Value Payment.]

[POCL view:

- (ii) any other Default by Pathway, Pathway's insolvency or change in control of Pathway then a value test (the "Value Test") will be carried out pursuant to paragraph 5.3.4 of Schedule 8.]

5.3.4 Value Test

The value test described in paragraph 5.3.3(ii) of Schedule 8 (the "Value Test") will be carried out by an independent expert agreed by POCL and Pathway (or failing which, by such suitably qualified and experienced person as shall be chosen at the request of either party by the President for the time being of the Institution of Electrical Engineers) and whose costs are to be borne by Pathway and, for the avoidance of doubt, such person shall act as an expert and not an arbitrator. The Value Test will be a comparison of the NPV of the costs to POCL (discounted at a rate of 8.5% per annum) of:

- (a) completing and/or rectifying the Core System and the BPS within a reasonable period of time such that POCL or its nominated contractor or contractors could provide the Contracted Services over the Pathway system in all post offices at service levels at least equal to those specified in the Updated POCL Agreement with no more than routine maintenance and support; and
- (b) replacing the Core System and the BPS with a completely new system and without using or re-using any of the Project Assets, within a reasonable period of time such that POCL or its nominated contractor or contractors could provide the Contracted Services over that other system in all post offices at service levels at least equal to those specified in the Updated POCL Agreement with no more than routine maintenance and support. The method of determining the replacement cost will, if reasonably practicable, be by way of a tender process.

The Value Test will be satisfied only if the cost of (a) is less than 95% of the cost of (b). The Value Test will not be satisfied if the Pathway system is not capable of being completed and/or rectified within a similar timeframe to that for replacing the Pathway system as referred to above in (b) such that POCL or its nominated contractor or contractors could operate the Pathway system at service levels at least equal to those specified in the Updated POCL Agreement.

Value Test Satisfied

If the Value Test is satisfied, then Pathway shall transfer to POCL (or to its order) the Project Assets in accordance with paragraph 8.1 of Schedule 8 and all right and title to them, free of any encumbrances, in consideration of the Value Payment (see below).

Value Test Not Satisfied

If the Value Test is not satisfied, then POCL shall have the option to require Pathway to transfer to POCL the Project Assets in accordance with paragraph 8.1 of Schedule 8, and all right and title to them, free of any encumbrances, to POCL for the greater of £1 and the Value Payment.

5.3.5 Value Payment

[In drawing up the Updated POCL Agreement, the overriding principle in agreeing the formula for calculating the Value Payment shall be that the Value Payment shall be such that POCL would not be worse off as a result of termination compared with the position it would have been in had Pathway

complied with its obligations in full and in accordance with the agreed timetable.]

[The calculation of the Value Payment will be carried out by an independent expert agreed by POCL and Pathway (or failing which, such suitably qualified and experienced person as shall be chosen at the request of either party by the President for the time being of the Institute of Chartered Accountants in England and Wales.)

- (i) The Value Payment will be calculated on the following basis:

$$\text{Value Payment} = X - Y$$

Where:

X = an amount calculated in accordance with paragraph 5.3.5(ii) of Schedule 8; and

Y = an amount calculated in accordance with paragraph 5.3.5(iii) of Schedule 8.

- (ii) Calculation of X

[ICL view:

The amount of X shall equal the aggregate of the book value of each class of Project Assets set out below after depreciation (if any):

- (a) Counter equipment;
- (b) Counter equipment software;
- (c) Building/carpentry works - no depreciation;
- (d) Installation of counter equipment - no depreciation;
- (e) ISDN installation - no depreciation; and
- (f) data centre equipment and related software licences.

Assets that are to be depreciated shall be depreciated at a rate of 1.5% per month from the CS Completion Date.

If the BIOS of the PCs comprised in the Project Assets is determined by an independent expert not to be suitable in accordance with best industry branch banking practice for Windows NT systems then POCL

may decline to acquire such PCs and the amount of X shall not include the book value of such assets.

The independent expert referred to in this paragraph shall be agreed by POCL and Pathway (or failing which, by such suitably qualified and experienced person as shall be chosen by the President for the time being of the Institute of Electrical Engineers) and whose costs shall be borne equally by POCL and Pathway. For the avoidance of doubt, such person shall act as an expert and not an arbitrator.]

[POCL view:

The amount of X shall equal the NPV (discounted at a rate of 8.5% per annum) of the forecast income streams of income to Pathway comprising the availability fees, Scorecard revenues and guaranteed payments, of the Contracted Services calculated at then forecast volumes [assuming performance of the Contracted Services in accordance with the Updated POCL Agreement for the period from termination to 31st March, 2010 and taking into account the effect on forecast volumes of delays caused by the rectification of the Contracted Services.]

(iii) Calculation of Y

[ICL view:

$$Y = A + B$$

A = NPV (discounted at a rate 8.5% per annum) of costs of POCL to rectify the Core System [(including the cost of PCs which are to replace the PCs not purchased (as referred to in paragraph 5.3.5(ii) of Schedule 8)] such that the Core System can be operated in accordance with the terms of the Updated POCL Agreement; and

B = the NPV (discounted at a rate 8.5% per annum) of costs incurred by POCL, if any, in re-tendering the Contracted Services.]

[POCL view:

The amount of Y shall equal the sum of the costs of POCL:-

- (i) to rectify, complete and roll out the Contracted Services;

- (ii) to operate or pay for the operation of the Contracted Services in accordance with the terms of the Updated POCL Agreement;
- (iii) to re-tender the Contracted Services;
- (iv) [an appropriate portion of the amounts paid to Pathway by way of development charges as referred to in paragraph 3.2.1 of Schedule 4;] and
- (iv) any other costs which would not have been incurred but for termination.]

5.4 Compensation on Force Majeure or Corrupt Gifts

The terms for compensation payable to Pathway in the event of termination for Force Majeure or Corrupt Gifts are to be agreed between the parties.

5.5 Set off

[POCL view: Payment of the Value Payment to Pathway shall be made net of any set-off in respect of any claim whatsoever and without prejudice to any other claims and liabilities arising as a result of the termination.]

[ICL view: Payment of the Value Payment is to be in full and final settlement of all claims by POCL under the POCL Updated Agreement in respect of the Default giving rise to termination. ICL to revert on set off.]

6. Direct Agreement and Lenders' Security

POCL accepts in principle the request for and Pathway shall use reasonable endeavours to agree the form of a Direct Agreement (in a form satisfactory to POCL which shall be an attachment to the Updated POCL Agreement), which would allow lenders:

- (i) to step-in and undertake Pathway's obligations under the Updated POCL Agreement (provided they remain within the existing timescale for remedy);
- (ii) to appoint a substitute entity to replace Pathway (provided they remain within the existing timescale for remedy and POCL consents to such appointment (such consent not to be unreasonably withheld)); and
- (iii) to take security under the Direct Agreement. Such security shall be limited to Pathway's assignable rights and benefits under the Updated POCL Agreement, and shall not include any other assets.

[(iv) [ICL review: requiring parties to exhaust remedies under the Direct Agreement prior to exercising any rights under these Heads.]

[POCL view: Pathway agrees that it shall not without the prior written consent of POCL create or suffer to exist any charge, encumbrance or other security interest over, declare a trust over, or assign, any of the Project Assets or any of Pathway's rights or benefits under the POCL Updated Agreement.]

7. Corrupt Gifts

7.1 Subject to any applicable statutory requirements (including, without limitation, the Prevention of Corruption Act 1889-1916), if an employee or sub-contractor of Pathway provides a corrupt gift (which shall be of a material amount) without any connivance by Pathway, Pathway shall be allowed 30 days to terminate the contract of the employee or sub-contractor and commence taking reasonable steps to prevent the corruption from occurring again, and if it does not do so within that time frame, POCL may terminate the Agreement.

7.2 In the event of corporate corruption i.e. corruption involving the board of Pathway, POCL may terminate the Agreement upon written notice without a 30 day cure period.

7. Interest on Late Payments

In circumstances where POCL makes a late payment to Pathway, or Pathway makes a late payment to POCL, the applicable interest rate on the overdue amount shall be LIBOR plus 1.5%.

8. Transfer of Project Assets

8.1 Where Pathway is obliged to transfer the Project Assets to POCL it shall [POCL view: deliver to POCL the Project Assets and all right and title to them free of any encumbrances][ICL view: comply with [provisions equivalent to those in] Clause 904 of the POCL Agreement and the equivalent Clause of the DSS Agreement so far as the same relate to the Project Assets and with all references to DSS changed to references to POCL.] [ICL view: No representations or warranties as to fitness for purpose or otherwise of the Project Assets are given by Pathway on the transfer of the Project Assets.]

8.2 [POCL view: POCL shall not be obliged to pay to Pathway the Value Payment unless all of the Project Assets (and all right and title to them, free of any encumbrances) shall have been delivered to POCL.]

SCHEDULE 9

PPP HEADS OF AGREEMENT

BETWEEN

POST OFFICE COUNTERS LTD whose registered office is at King Edward Building, King Edward Street, London EC1A 1AA

ICL PLC whose registered office is at 26 Finsbury Square London EC2A 1DS ("ICL")

and

ICL PATHWAY LIMITED whose registered office is at 26 Finsbury Square, London EC2A 1DS ("Pathway")

In May 1997 POCL and Pathway signed a strategic partnership document ("the Strategic Partnership"). The aim of the Strategic Partnership was to implement the Pathway project ("the Project") and extend the range of services that will be used by the POCL Service Architecture under the Agreement between POCL and Pathway ("POCL Agreement").

The Project has involved the parties investing substantial financial and other resources. The parties have been in recent discussions relating to the progress of the Project to work out how they can extend their existing relationship.

This document ("these PPP Heads") sets out in general terms the understanding shared between POCL, ICL and Pathway of the manner in which the Strategic Partnership can be taken further in the form of a public private partnership to the commercial advantage of all parties ("the PPP").

For the purpose of these PPP Heads POCL means Post Office Counters Ltd or, in the event of a restructuring of that company, any one or more subsidiaries or divisions of the Post Office to the extent that they thereafter carry on any of the businesses currently carried on by Post Office Counters Ltd. ("the Restructured Businesses"). Any references in these PPP Heads to the "Managing Director of POCL" shall mean the group managing director of the Post Office responsible for the Restructured Businesses from time to time (currently Mr. Stuart Sweetman).

The ultimate commercial advantage will be achieved by pursuing through the PPP two inter-related goals:

- Partnership Plus;
- Future Additional Business Opportunities;

1. **Partnership Plus**

- 1.1 The parties will work together, using the existing Strategic Partnership infrastructure, to develop additional partnership approaches and identify possibilities for expanding the scope of the existing relationship such that ICL and Pathway are identified as together the single source for front end systems integration and service provision for POCL. The precise definition of "front end" is to be agreed and is currently identified by reference to the items detailed in Attachment B.
- 1.2 The initiatives to be undertaken to achieve Partnership Plus are set out in Attachment A. The decision making process in respect of these are set out in paragraph 3.

2. **Future Additional Business Opportunities**

- 2.1 A preliminary review of some current and potential business opportunities has identified those where POCL believes ICL and/or Pathway could offer value to POCL in providing IT and systems services and in working with POCL to become POCL's systems integrator and service provider of its "front end" (but not "back end") IT systems and information architecture. Attachment B contains a list of services which:

- (i) the parties have agreed will initially be the subject of market research and business case development, by the PPP and will include feasibility studies based on specific services identified from the Government White Paper on Modernising Government;

and

- (ii) (if and to the extent that, as a result of such market research and business case development, it becomes commercially desirable for the parties to commit to the provision of such services by Pathway or ICL to POCL) shall initially be offered to ICL on a single tender basis provided that:
- (a) POCL is reasonably satisfied that ICL or Pathway, as the case may be, has sufficient financial and other resources to provide such services satisfactorily; and
- (b) the terms proposed by ICL or Pathway demonstrably offer quality of service and value for money in terms of clause 2.3. Such quality and value for money may be measured by comparison with other suppliers in the market, by benchmarking, by open book accounting by ICL and Pathway or otherwise, as agreed between the parties; and
- (c) the PO Board shall have approved the same subject to and in accordance with paragraph 3.2 and save where the relevant proposal falls within the devolved powers of the Managing Director of POCL.

Where such services are to be offered to ICL and/or Pathway on a single tender basis, POCL, ICL and Pathway will together, in consultation with the Executive, produce implementation plans for each of such services and will together determine how joint working should apply to each service.

The parties will also examine the possibility of working together on further opportunities from time to time as the PPP develops.

- 2.2 POCL, ICL and Pathway will seek to position POCL as HM Government's supplier of choice for the supply of Modernising Government Initiatives to the extent that this can be done consistent with the requirements of the public procurement regime and other legal constraints. In particular POCL will seek access to the Invest to Save initiative so as to obtain seed-corn funding to develop initiatives. No member of the ICL Group will compete with POCL for front end customer services. The precise ambit of this restriction is to be agreed.
- 2.3 POCL, ICL and Pathway, will work together with a view to demonstrating that the future additional business offers value for money ("VFM") and excellent service to POCL and to its customers. Future additional business proposed by ICL will be governed by the following parameters, subject to the same being consistent with VFM:
- functionality to be agreed by POCL
 - the design must fit with Post Office IS/IT architecture, which is subject to PO Group IT/IS design standards and concurrence processes and fit with POCL's end-to-end operating processes ("PO Standards"), such fit to be achieved by an alignment of standards between the parties and on the basis of best industry practice
 - open standards are to be deployed, consistent with ICL's commitment to accessing 'best of breed' technologies, including the use of solutions and components sourced from suppliers other than ICL or other members of the Fujitsu group, where required
 - the design and development of applications needs to drive towards solutions designed for best in class time-to-market cycles
 - existing contractual arrangements with third parties will not be prejudiced
 - a customer-centric ethos will need to be applied in designing solutions
 - it is important that best practice systems design is so far as feasible progressively implemented throughout the Horizon architecture, including:
 - separation of applications from infrastructure

- coherent systems management with consistently applied security standards
- compatibility with the logical data model within POCLs system architecture.

In pursuing such opportunities, POCL will have transparency in ICL's technical approach and design and benefit from ICL's research and technological capability including capability derived from ICL's relationship with Fujitsu and ICL's other technical alliances and resources. ICL will have transparency in Post Office technical approach and design and Post Office Standards. All parties will hold regular technical meetings to review and enable achievement of these objectives. These arrangements shall be subject to appropriate confidentiality agreements.

- 2.4 Future work upon existing solutions and services will also be driven by the principles set out in paragraph 2.3 but shall be subject to the Updated POCL Agreement (including all documents incorporated therein, such as specifications or programme plans) as from time to time agreed.
- 2.5 Where as part of the provision of any solution any task or service has to be subcontracted and a member of the Post Office Group has the competence to carry out that task or provide that service then that member of the Post Office Group will be the first choice to carry out that task or service, provided to do so offers VFM.
- 2.6 Where the Post Office already has strategies or plans in place, the services and plans envisaged under these PPP Heads will need to be consistent with them. For example the technical approach needs to create systems that are flexible:
- (i) in customer and key process terms;
 - (ii) in terms of future organisational changes; and
 - (iii) in relation to core Post Office competencies and market developments, such as developing call centres or certification and authorisation of 'Trusted Third Party' services on tokens such as smartcards.

3. Implementation of the PPP

- 3.1 In order to implement the PPP, POCL, ICL and Pathway will establish a marketing and sales committee ("the Executive") to oversee the identification, development and implementation of future additional business discussed in paragraph 2 as well as any other initiatives identified by the PPP. Each of the parties (for this purpose ICL and Pathway being deemed together one party and POCL being one party) will be entitled to appoint four members to the Executive and one of POCL's nominees shall be the chairman of the Executive, with a casting vote.

- 3.2 The Managing Director of the Post Office responsible for POCL will consult with a representative of ICL from time to time on matters relevant to the PPP. Each of the parties acknowledges that the PPP is not intended to remove from POCL and the Post Office control over POCL's commercial decisions. However, POCL acknowledges (with the approval of the Post Office) that the Post Office Board fully endorses POCL's fully automated future. The Post Office Board will use its best endeavours to support and approve any proposals put forward to it for the purposes of paragraph 2.1(ii)(c) subject to:
- (i) availability of financial resources;
 - (ii) such proposals being consistent with the strategic direction of POCL (as approved by the Post Office Board); and
 - (iii) such proposals having been demonstrated to the reasonable satisfaction of the Post Office Board to be commercially desirable.
- 3.3 Subject to the approval of the Post Office Board, the parties will investigate in due course the possibility of having one nominee from ICL appointed to the board of directors of POCL or an equivalent executive committee responsible for the Restructured Businesses and one nominee of POCL appointed to the board of directors of Pathway. Such nominee would serve in a non-executive capacity.
- 3.5 To implement the activities of market research and business case development, including feasibility studies based on specific services identified from the Government White Paper on Modernising Government, in terms of clause 2.1 and 3.1, ICL shall contribute in the two year period ending 31st March, 2002 an aggregate amount of £5m in money or money's worth and POCL shall contribute in aggregate an equal amount. For later years ICL and POCL shall contribute in amounts to be agreed. The timing of contributions and the detailed purpose of expenditure, as well as relevant administrative and financial arrangements, shall be agreed between the parties.

4. Consequential Amendments

- 4.1 The parties agree that the Updated POCL Agreement is to be amended to the extent necessary so as to encompass the future additional business. Such amendment will reflect the provisions of paragraph 2.1(ii) and subject thereto will include the following:
- 4.1.1 development of services by Pathway to include new applications for Smartcards, kiosks, Modernising Government Services and the other matters which are identified in Attachment B. Prices for these services will require the 6

4.1.2 addition of new columns to the existing Scorecard. The revised Scorecard will require any Servicepoints used for the pricing of these service elements to be calculated on the basis of new pricing rules

4.2 POCL, ICL and Pathway believe it desirable that POCL should be given commercial freedom by the DTI to enable proper competitive business development of the POCL network/infrastructure including the Pathway system (e.g. freedom to sell railway tickets/theatre tickets and Modernising Government services) and the parties agree to work together to give effect to that belief.

5. Looking Forward

5.1 It is acknowledged that in any decision by POCL to invest in new projects described in these PPP Heads, the timely achievement of both Acceptance Phases in accordance with the Updated POCL Agreement will be a major influence.

5.2 These PPP Heads will lapse if the Updated POCL Agreement is terminated [or if the Heads of Agreement of which this is a schedule lapse].

6. General

6.1 Each party agrees to keep confidential and not to disclose to anyone else the existence or the terms of this document or the negotiations or exchanges of information relating thereto (together "Confidential Information").

Notwithstanding the above, any party may disclose Confidential Information:

- (i) if and to the extent required by law;
- (ii) if and to the extent that the other parties have given prior written consent to the disclosure;
- (iii) to its professional advisers;
- (iv) to the extent requested by H.M. Government;
- (v) to any other party or to the Post Office or Fujitsu;

to the extent that such Confidential Information shall have become public knowledge other than by reason of breach of any applicable confidentiality restriction by the party disclosing the same (or, in the case of disclosure by ICL or Pathway, by reason of breach of any applicable confidentiality restriction by the other); or

(vi) from one Restructured Business to another.

In the event that Confidential Information is disclosed by any party to its professional advisers, that party shall procure that its professional advisers comply with the restrictions contained in this clause, mutatis mutandis. In the event that Confidential Information is disclosed by POCL to the Post Office, POCL shall procure that the Post Office complies with the restrictions contained in this clause mutatis mutandis.

- 6.2 Each party acknowledges that, in entering into these PPP Heads or any other agreement or arrangement in the future, it is not relying on any representation, warranty, promise, assurance or other statement, whether or not in writing, which any party may have given or made in discussions between the parties prior to signing these PPP Heads and will ensure that any information contained in any such representation, warranty, promise, assurance or other statement which is communicated by it or on its behalf to a third party shall be so communicated upon the basis that such information is solely the responsibility of the party by whom or on whose behalf it shall have been disclosed and with no responsibility or liability on the part of the party which originated the same.
- 6.3 In the event of a restructuring of Post Office Counters Ltd, that company will be entitled to assign these PPP Heads to the Restructured Businesses.

Signed on behalf of Post Office Counters Ltd.

Signed on behalf of ICL PLC.

Signed on behalf of ICL Pathway Limited

ATTACHMENT A

PARTNERSHIP

PREVIOUSLY AGREED

JOINT OBJECTIVES FOR PARTNERSHIP
SHARING OF INFORMATION
JOINT NEW BUSINESS DEVELOPMENT (NBD) PROCESS
JOINT SCOPING OF OPPORTUNITIES
JOINT BUSINESS CASES
JOINT IMPLEMENTATION PLANS
SHARE RESOURCES & SKILLS
PREFERRED SUPPLIER STATUS
PARTNERSHIP MANAGERS
JOINT PERFORMANCE REVIEW
INDEPENDENT REVIEW & FACILITATION

POSSIBLE NEW ENHANCEMENTS

THE "EXECUTIVE" IN OVERSEEING THE IDENTIFICATION, DEVELOPMENT AND IMPLEMENTATION OF FUTURE ADDITIONAL BUSINESSES WILL DEVELOP AND PROPOSE:

JOINT STRATEGIC PLANS
JOINT BUSINESS PLANNING
JOINT TARGETS/INCENTIVES (NB REVIEW CONTRACT PAYMENT PROCESS)
JOINT VIRTUAL TEAMS e.g. NBD PROJECTS
JOINT ACCOUNT PLANNING AND REVIEWS
JOINT END TO END ARCHITECTURE REVIEWS
JOINT INTERNAL COMMS RE PARTNERSHIP
JOINT EXTERNAL COMMS/LOBBYING (WHERE APPROPRIATE)
JOINT PARTNERSHIP DEVELOPMENT BUDGET
SECONDMENTS (e.g. ACCOUNT MANAGEMENT)

ATTACHMENT B

SCHEDULE OF FUTURE ADDITIONAL BUSINESS OPPORTUNITIES

AREA	OPPORTUNITIES TO BE ADDRESSED
1. GOVERNMENT GATEWAY	<ul style="list-style-type: none">• Provision of a service for delivery of Government information and completion and printing of forms• Development of web engine for interfacing with Government bodies (potentially through Government Secure Intranet) using electronic interfaces as available. Also to include Transaction Management System development as required• Multi-channel web applications to cover:<ul style="list-style-type: none">- Over the counter- Kiosks (not including) ATMs- Internet- Call centre support

2. SMARTCARDS
 - Solution provided with open standards as required including:
 - Card issue service
 - Personalisation of card
 - Application loading
 - Authentication services using PO Trusted Third Party (Entrust) as appropriate
 - Operational use in post offices & PO kiosks
 - Card management services

3. KIOSKS
 - Government Gateway service to kiosks within/without Post Office estate
 - Other commercial applications as agreed consistent with counter applications

4. INTERNET
 - Government Gateway services as above delivered through Internet

5. INTRANET
 - Integrated with and complementary to (but not replacing) existing PO Intranet

Connections to post offices

6. Customer Loyalty Schemes
 - Software application and scheme management

7. Consultancy Services for exploitation of customer data/information
 - As required

- 8. Extending PO services to private side of post offices e.g. longer opening hours
 - Solution required

SCHEDULE 10

Form of Fujitsu Guarantee

THIS DEED OF GUARANTEE AND INDEMNITY is made
on 1999

BETWEEN

1. FUJITSU LIMITED of [] (registered in Japan no. []) (the
"Guarantor")

AND

2. POST OFFICE COUNTERS LTD of King Edward Building, King Edward Street,
London EC1A 1AA (registered in England no. 2154540) ("POCL", which
expression includes POCL's successors and assigns).

WHEREAS

1. By various agreements dated 15 May 1996 made between ICL Pathway Limited ("Pathway") POCL and the Secretary of State for Social Security ("DSS") Pathway agreed to provide certain services for the DSS and POCL ("the Project")
2. Disputes arose between Pathway, the DSS and POCL in relation to the Project.
3. By Heads of Agreement (the "Agreement") dated [] the parties have agreed to resolve their disputes and continue with the Project on condition that Pathway procured a guarantee from the Guarantor in the terms of this Deed.

NOW THIS DEED WITNESSES AS FOLLOWS

1. The Guarantor unconditionally and irrevocably guarantees to POCL the due and punctual performance by Pathway of the Agreement and undertakes that upon demand by POCL it shall indemnify and keep POCL indemnified against all losses, damages, costs and expenses (including court costs and legal fees) which may be incurred by POCL arising out of all and any breach of the Agreement and provided always that the liability of the Guarantor shall be no greater than the liability of Pathway under the Agreement, without prejudice to Clause 10.
- 1.2 On the date of execution of any further agreement between POCL and Pathway (and/or ICL plc or any other subsidiary of ICL plc) pursuant to the Agreement (including schedule 9 thereto), the Guarantor shall execute a guarantee in the same form as this Deed, mutatis mutandis, relating to the obligations of Pathway (or such other obligor) under such further agreement and shall deliver

the same to POCL on that date together with a legal opinion of a Japanese law firm in a form reasonably acceptable to POCL confirming that such guarantee has been duly authorised and validly executed and that the Guarantor has the capacity to enter into an agreement governed by English law. For the avoidance of doubt any such new guarantee shall extend to obligations of Pathway in respect of future additional business opportunities referred to in schedule 9 to the Agreement only to the extent that services in relation thereto are included in the Updated POCL Agreement (as defined in the Agreement) or any other agreement between Pathway (or such other obligor) and POCL in existence on the date the new guarantee is executed under which Pathway (or such other obligor) is remunerated for the provision of such services.

2. The Guarantor shall not be discharged or released from this Deed of Guarantee by any arrangement made between Pathway and/or POCL without the assent of the Guarantor or by any amendment to or termination of the Agreement or by any forbearance, waiver or indulgence whether as to payment, time, performance or otherwise granted by POCL in relation thereto and the Guarantor hereby expressly consents to any and all such arrangements, amendments, terminations, forbearances or indulgences.
3. The indemnity set out in Clause 1 of this Deed of Guarantee is irrevocable and absolute and shall be a continuing security and accordingly it shall:
 - 3.1 not be discharged by any partial performance (except to the extent of such partial performance) by Pathway of its obligations under the Agreement; and
 - 3.2 extend to cover the unperformed part of the obligations of Pathway from time to time under the Agreement.
4. The obligations of the Guarantor under this Deed of Guarantee are those of primary obligor and such obligations exist irrespective of any invalidity, illegality or unenforceability of any provision of the Agreement. POCL shall not be obliged before taking steps to enforce this Deed of Guarantee against the Guarantor to obtain judgment against Pathway or the Guarantor or any third party in any Court, or to make or file any claim in a bankruptcy or liquidation of Pathway or any third party, or to take any action whatsoever against Pathway or the Guarantor or any third party.
5. The Guarantor warrants that it is a body corporate duly organised and validly existing under the laws of Japan, with limited liability and has all power and authority to enter into and perform the obligations contemplated by this Deed of Guarantee to be performed by it and that this Deed of Guarantee constitutes its legal, valid and binding obligations.
6. All sums payable by the Guarantor under this Deed of Guarantee shall be paid without any set-off, lien or counterclaim, deduction or withholding, howsoever arising. The parties agree that payment in accordance with this Clause 6 shall

not constitute a waiver of any rights or remedies that the Guarantor may have as against POCL.

7. None of the liabilities or obligations of the Guarantor under this Deed of Guarantee shall be impaired or discharged by:
 - 7.1 the insolvency, administration, receivership, dissolution, winding-up, amalgamation, reconstruction or reorganisation of the Guarantor, Pathway or any other person (or the commencement of any of the foregoing), or any equivalent or analogous proceedings in whatever jurisdiction;
 - 7.2 any change in the constitution of Pathway or the Guarantor; or
 - 7.3 any other matter which but for this provision might operate to discharge or exonerate the Guarantor.
- 8.1 If any payment or other benefit received by POCL in relation to the obligations of Pathway pursuant to the Agreement are avoided, reduced or invalidated by virtue of any applicable law then pro tanto the Guarantor's obligations shall not be released or affected.
- 8.2 Until the obligations of Pathway pursuant to the Agreement have been fully performed:
 - (a) the Guarantor shall not without the consent of POCL be subrogated to any rights of POCL arising under the Agreement or seek to enforce repayment from Pathway by way of indemnity, or otherwise; and
 - (b) the Guarantor shall not prove or claim a dividend in the insolvency of Pathway without the consent of POCL but shall do so if directed by POCL and will hold any benefit in trust for POCL.
9. If any provision of this Deed of Guarantee is invalid, illegal or unenforceable for any reason, such provision shall be severed and the remainder of the provisions hereof shall continue in full force and effect as if this Deed of Guarantee had been executed with the invalid, illegal or unenforceable provision eliminated.
10. The Guarantor shall reimburse to POCL all costs and expenses incurred by POCL in connection with the enforcement and administration, (excluding, for the avoidance of doubt, any enforcement and administration costs incurred by POCL in enforcing or administering the Agreement as between Pathway and POCL), of all or any part of the obligations described herein, including without limitation all legal costs and disbursements and court costs.

11. [If the Agreement lapses in accordance with paragraph 3.2 or 14.4 thereof then this Deed of Guarantee shall also lapse, save that:

11.1 this Deed of Guarantee shall not lapse in respect of any breach of the Agreement occurring on or prior to the date of lapse of the Agreement, provided that no demand may be made under this Guarantee unless notice of the proposed demand is given to the Guarantor within six months following the date of lapse; and

11.2 if the parties to the Agreement agree that, notwithstanding the provisions of paragraph 3.2 or 14.4 of the Agreement, the Agreement shall not lapse but shall continue, then the Guarantor agrees that this Guarantee shall also continue and not lapse.]

12. Except as otherwise expressly provided herein, any notice or other communication affecting this Deed of Guarantee from one party to the other shall be made in writing and signed by or on behalf of the other party making the notice or communication.

13. Any notice or other communication which either party is required or authorised by this Deed of Guarantee to give or make to the other shall be given or made by leaving it at, or by posting by ordinary prepaid first class post (airmail if overseas) or by facsimile transmission to the address of the other party in the manner referred to in the following provisions of this Clause 13. Such notice or communication shall be deemed for the purposes of this Deed of Guarantee to have been given or made on the fifth Business Day after the date of posting (for a letter), or on the Business Day following the date of transmission (for a facsimile). For the purposes of this Clause, "Business Day" shall mean any day (excluding Saturdays and Sundays) when clearing banks in the City of London are open for normal banking business.

14. The Guarantor irrevocably appoints ICL plc of 26 Finsbury Square, London, EC2A 1DS to be its agent for the receipt of service of process in England. It agrees that any document may be effectively served on it in connection with proceedings in England and Wales by service on its agent, and clause 13 applies with respect to such service.

15. For the purposes of Clause 13 above the address of each party shall be:-

For the GUARANTOR:

Address: [●]

Attention: [●]

Fax: [●]

For POCL:

Address: King Edward Building, King Edward Street, London EC1A 1AA

Attention: [●]
Fax: [●]

16. Either party may change its address for service, or the person nominated to receive any such notices or communication, by notice given in accordance with Clause 12 above.
17. The single or partial exercise by POCL of any right, power or remedy provided by law or under this Deed of Guarantee shall not preclude any other or further exercise thereof or the exercise of any other right, power or remedy.
18. This Deed of Guarantee shall be governed by and construed in all respects in accordance with the laws of England. Any dispute which may arise between the parties concerning this Deed of Guarantee shall be determined by the courts of England and the parties hereby submit to the non-exclusive jurisdiction of the courts of England for such purposes.

IN WITNESS WHEREOF the Guarantor has executed this document as a deed by the day and year first before written.

Executed as a deed)
By FUJITSU LIMITED) [Authorised signatory]
acting by [authorised signatory(ies))
under its authority])

.....
[Authorised signatory]

The common seal of)
POST OFFICE COUNTERS LTD)
was affixed in the presence of:-)

Director

Director/Secretary

SCHEDULE 11

Form of Legal Opinion

THIS DEED OF GUARANTEE AND INDEMNITY is made on 24 May 1999

BETWEEN

1. FUJITSU LIMITED of 1-1, Kamikodanaka 4-chome, Nakahara-ku, Kawasaki 211-8588, Japan (the "Guarantor")

AND

2. POST OFFICE COUNTERS LTD of King Edward Building, King Edward Street, London EC1A 1AA (registered in England no.2154540) ("POCL", which expression includes POCL's successors and assigns).

WHEREAS

1. By various agreements dated 15 May 1996 made between ICL Pathway Limited ("Pathway") POCL and the Secretary of State for Social Security ("DSS") Pathway agreed to provide certain services for the DSS and POCL ("the Project")
2. Disputes arose between Pathway, the DSS and POCL in relation to the Project.
3. By the letter dated 24 May 1999 from Stuart Sweetman of POCL to Keith Todd of ICL (the "Agreement") the parties have agreed to resolve their disputes and continue with the Project on condition that Pathway procured a guarantee from the Guarantor in the terms of this Deed.

NOW THIS DEED WITNESSES AS FOLLOWS

1. The Guarantor unconditionally and irrevocably guarantees to POCL the due and punctual performance by Pathway of the Agreement and undertakes that upon demand by POCL it shall indemnify and keep POCL indemnified against all losses, damages, costs and expenses (including court costs and legal fees) which may be incurred by POCL arising out of all and any breach of the Agreement and provided always that the liability of the Guarantor shall be no greater than the liability of Pathway under the Agreement, without prejudice to Clause 10.

- 1.2 On the date of execution of the Codified Agreement, the Guarantor shall execute a guarantee in the same form as this Deed, mutatis mutandis, relating to the obligations of Pathway under the Codified Agreement and shall deliver the same to POCL on that date together with a legal opinion of a Japanese law firm in a form reasonably acceptable to POCL confirming that such guarantee has been duly authorised and validly executed and that the Guarantor has the capacity to enter into an agreement governed by English law.
2. The Guarantor shall not be discharged or released from this Deed of Guarantee by any arrangement made between Pathway and/or POCL without the assent of the Guarantor or by any amendment to or termination of the Agreement or by any forbearance, waiver or indulgence whether as to payment, time, performance or otherwise granted by POCL in relation thereto and the Guarantor hereby expressly consents to any and all such arrangements, amendments, terminations, forbearances or indulgences.
3. The indemnity set out in Clause 1 of this Deed of Guarantee is irrevocable and absolute and shall be a continuing security and accordingly it shall:
 - 3.1 not be discharged by any partial performance (except to the extent of such partial performance) by Pathway of its obligations under the Agreement; and
 - 3.2 extend to cover the unperformed part of the obligations of Pathway from time to time under the Agreement.
4. The obligations of the Guarantor under this Deed of Guarantee are those of primary obligor and such obligations exist irrespective of any invalidity, illegality or unenforceability of any provision of the Agreement. POCL shall not be obliged before taking steps to enforce this Deed of Guarantee against the Guarantor to obtain judgment against Pathway or the Guarantor or any third party in any Court, or to make or file any claim in a bankruptcy or liquidation of Pathway or any third party, or to take any action whatsoever against Pathway or the Guarantor or any third party.
5. The Guarantor warrants that it is a body corporate duly organised and validly existing under the laws of Japan, with limited liability and has all power and authority to enter into and perform the obligations contemplated by this Deed of Guarantee to be performed by it and that this Deed of Guarantee constitutes its legal, valid and binding obligations.

6. All sums payable by the Guarantor under this Deed of Guarantee shall be paid without any set-off, lien or counterclaim, deduction or withholding, howsoever arising. The parties agree that payment in accordance with this Clause 6 shall not constitute a waiver of any rights or remedies that the Guarantor may have as against POCL.
7. None of the liabilities or obligations of the Guarantor under this Deed of Guarantee shall be impaired or discharged by:
 - 7.1 the insolvency, administration, receivership, dissolution, winding-up, amalgamation, reconstruction or reorganisation of the Guarantor, Pathway or any other person (or the commencement of any of the foregoing), or any equivalent or analogous proceedings in whatever jurisdiction;
 - 7.2 any change in the constitution of Pathway or the Guarantor; or
 - 7.3 any other matter which but for this provision might operate to discharge or exonerate the Guarantor.
- 8.1 If any payment or other benefit received by POCL in relation to the obligations of Pathway pursuant to the Agreement are avoided, reduced or invalidated by virtue of any applicable law then pro tanto the Guarantor's obligations shall not be released or affected.
- 8.2 Until the obligations of Pathway pursuant to the Agreement have been fully performed:
 - (a) the Guarantor shall not without the consent of POCL be subrogated to any rights of POCL arising under the Agreement or seek to enforce repayment from Pathway by way of indemnity, or otherwise; and
 - (b) the Guarantor shall not prove or claim a dividend in the insolvency of Pathway without the consent of POCL but shall do so if directed by POCL and will hold any benefit in trust for POCL.

9. If any provision of this Deed of Guarantee is invalid, illegal or unenforceable for any reason, such provision shall be severed and the remainder of the provisions hereof shall continue in full force and effect as if this Deed of Guarantee had been executed with the invalid, illegal or unenforceable provision eliminated.
10. The Guarantor shall reimburse to POCL all costs and expenses incurred by POCL in connection with the enforcement and administration, (excluding, for the avoidance of doubt, any enforcement and administration costs incurred by POCL in enforcing or administering the Agreement as between Pathway and POCL), of all or any part of the obligations described herein, including without limitation all legal costs and disbursements and court costs.
11. Except as otherwise expressly provided herein, any notice or other communication affecting this Deed of Guarantee from one party to the other shall be made in writing and signed by or on behalf of the other party making the notice or communication.
12. Any notice or other communication which either party is required or authorised by this Deed of Guarantee to give or make to the other shall be given or made by leaving it at, or by posting by ordinary prepaid first class post (airmail if overseas) or by facsimile transmission to the address of the other party in the manner referred to in the following provisions of this Clause 12. Such notice or communication shall be deemed for the purposes of this Deed of Guarantee to have been given or made on the fifth Business Day after the date of posting (for a letter), or on the Business Day following the date of transmission (for a facsimile). For the purposes of this Clause, "Business Day" shall mean any day (excluding Saturdays and Sundays) when clearing banks in the City of London are open for normal banking business.
13. The Guarantor irrevocably appoints ICL plc of 26 Finsbury Square, London EC2A 1DS to be its agent for the receipt of service of process in England. It agrees that any document may be effectively served on it in connection with proceedings in England and Wales by service on its agent, and clause 12 applies with respect to such service.

14. For the purposes of Clause 12 above the address of each party shall be:

For the GUARANTOR:

Address: 6-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8211
Attention: General Manager, Business Development Division, ICL Business
Group, Fujitsu Limited
Fax: GRO

For POCL:

Address: King Edward Building, King Edward Street, London, EC1A 1AA
Attention: Managing Director
Fax: GRO

15. Either party may change its address for service, or the person nominated to receive any such notices or communication, by notice given in accordance with Clause 12 above.
16. The single or partial exercise by POCL of any right, power or remedy provided by law or under this Deed of Guarantee shall not preclude any other or further exercise thereof or the exercise of any other right, power or remedy.
17. This Deed of Guarantee shall be governed by and construed in all respects in accordance with the laws of England. Any dispute which may arise between the parties concerning this Deed of Guarantee shall be determined by the courts of England and the parties hereby submit to the non-exclusive jurisdiction of the courts of England for such purposes.

IN WITNESS WHEREOF the Guarantor has executed this document as a deed by the day and year first before written.

Executed as a deed)
By FUJITSU LIMITED) Hiroaki Kurokawa
Group Executive Vice President
Software & Service Business Promotion
Group

The Common Seal of)
POST OFFICE COUNTERS LTD)
Was affixed in the presence of:-)

.....
Director/Secretary