

POST OFFICE CONFIDENTIAL - COMMERCIAL

Introduction to the Contract with Fujitsu Services for Horizon

Version Control

| Version | Date | Comment |
|---------|-----------|---|
| 1.0 | 16/1/2003 | First Issue – corresponds to version 1.0 of the clauses and schedules of the Agreement as amended by CCN 1100 and effective from 1 January 2003 |

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POST OFFICE CONFIDENTIAL - COMMERCIAL**Introduction to the Contract with Fujitsu Services for Horizon****1. Introduction**

Fujitsu Services (Pathway) Limited ("Fujitsu Services") provides Horizon and related services to Post Office Limited. The contract covering these services has been renegotiated and the amended contract was agreed on 31 December 2002 and came into effect on 1 January 2003.

This document provides an introduction to the amended contract (which is referred to in the contract itself and in this document as the "Agreement") concentrating on those aspects which are new or significantly changed.

The purpose of this introduction is to provide an overview of how the Agreement is organised, and how its various provisions fit together. Anyone who needs to understand specific provisions of the Agreement will need to refer to the full document and to get expert advice on its interpretation. The initial contacts for this are the Fujitsu Services Contract team in IT Commercial (Keith Baines, Mike Hannon, or Nick Samuel) who will bring in expert legal or purchasing advice as required.

2. Contract Structure

The overall structure of the Agreement has been changed, so that it more closely matches areas of management responsibility in both Post Office and Fujitsu Services, and detailed functional definitions have been moved out of the contract into subsidiary documents (CCDs).

The Agreement comprises the main Clauses and 24 Schedules, which are summarised in the sections below. In addition there are around 150 Contract Controlled and Contract Referenced Documents (CCDs and CRDs) containing more detailed specifications and procedures.

Schedules to the Agreement

| | | |
|--|--|-----------------------------------|
| 1 Interpretation | 2 Policies and Standards | 3 Audit |
| 4 Governance | 5 Change Control | 6 Fujitsu Services' Key Personnel |
| 7 Subcontractors | 8 Form of Parent Company Guarantees | 9 Ordering, Invoicing and Payment |
| 10 Charges | 11 Value for Money | 12 Timetable |
| 13 Licences | 14 Consumables | 15 Service Levels and Remedies |
| 16 Post Office Responsibilities | 17 Infrastructure | 18 Application Management |
| 19 Operational Services | 20 Development Services | 21 Business Continuity |
| 22 Contract Termination and Service Transfer | 23 Branch Hardware Implementation Services | 24 Banking Implementation |

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POST OFFICE CONFIDENTIAL - COMMERCIAL**3. Main Changes**

The contract has been changed largely in line with the non-binding Heads of Agreement signed by Post Office and Fujitsu Services on 21 October 2002. The most significant changes are:

- a) Change from managed service to more conventional supply contract;
- b) Extension of the contract term by 5 years to March 2010;
- c) Reduction in the price of the existing services;
- d) New governance and change control processes intended to facilitate new developments and improve time to market;
- e) New processes for development in line with the Post Office IS landscape, and for specifying and ordering work packages under the contract framework;
- f) Better utilisation of Fujitsu Services Systems Integration resources including making spare capacity available for development work at no additional charge;
- g) Rationalisation of service levels, including reduction of some service levels that were out of line with market norms and costly to achieve, and simplification of service level measurement;
- h) Introduction of ADSL (Broadband) telecommunications to branches as a phased replacement for ISDN (and FRIACO);
- i) Extension of scope of services including changes to support end to end re-architecture of Post Office operating process.

4. The Clauses

The Clauses are the top level of the contract; they set out the main terms and conditions, set the various schedules in context, and have the highest level of precedence, so that in the event of any inconsistency, the Clauses would over-rule the schedules and other documents.

The following sections highlight some of the main provisions

4.1 Clause 1.– Performance Of Services

This lists the main services that Fujitsu Services provide under the contract. These are:

- the Operational Services (set out in Schedule 19)
- the Development Services (Schedule 20)
- the Business Continuity Services (Schedule 21);
- the Branch Hardware Implementation Services (Schedule 23);
- the Banking Implementation Activities (Schedule 24); and
- the Transfer Services and the NBS Transfer Services (Schedule 22).

A diagram showing a more detailed breakdown of the Services is at Annex 1.

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4.2 Clause 5.– Consumables

Specifies that Fujitsu Services will provide consumables (such as printer ribbons, tally rolls and ink cartridges) required for the Branch equipment if Post Office requires. This provision would be used if suitable supplies were not available elsewhere. Further details of consumables are in Schedule 14.

4.3 Clause 6.– Changes To Services

Specifies Post Office and Fujitsu Services rights and responsibilities for authorising new releases.

4.4 Clause 7.– Development Of New Business Opportunities

States the shared vision of Post Office and Fujitsu Services for extension of the services provided under the Agreement. This is derived from the similar provision in the Heads of Agreement.

4.5 Clause 10.– Charges

Summarises the charges to be paid by Post Office, and refers to Schedule 10 for the pricing details.

4.6 Clause 12.– Ownership

Confirms that the infrastructure and equipment currently used to provide the Horizon services is owned by Fujitsu Services. (This is transferable to Post Office at the end of the contract for a nominal payment of one pound.)

4.7 Clause 13.– Intellectual Property Rights

Sets out Post Office and Fujitsu Services rights and responsibilities in relation to intellectual property related matters. This Clause deals with the following topics: Listed Documentation; Fujitsu Services' Software; Third Party Software; Internal Code; Deposited Software/Escrow Arrangements; Specially Written Software and Specially Written Documentation; Developed Documentation; Use of Internal Design Documentation and Specially Commissioned Design Documentation; and Other Intellectual Property Rights.

Post Office is licensed to use the software and documentation that it needs in order to receive the Services provided by Fujitsu Services.

Arrangements for software to be held in escrow are set out. At present there is no such software, but this will apply to Escher software in future, and it is likely to be used for any significant future development projects.

Provisions for Specially Written Software and Documentation are set out. These do not apply to any current software or documentation, but are intended for use with any future software commissioned by Work Order and developed by Fujitsu Services or on their behalf (for example by a subcontractor). Post Office will own the IPR in such software and documentation, but will license it to Fujitsu Services to use in providing services to Post Office, and will not unreasonably refuse to license Fujitsu Services to use it for other purposes.

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Documentation (apart from Specially Written Documentation) which Fujitsu Services writes at Post Office expense will be owned by Post Office ("Developed Documentation") if it is all original work or derives primarily from Post Office materials, or be licensed royalty free to Post Office if it incorporates pre-existing Fujitsu Services intellectual property rights.

Post Office is entitled to use Fujitsu Services' technical documentation and disclose it (under non-disclosure agreement) to third parties in connection with third party development for integration into Horizon and for planning the replacement of Horizon at the end of the Agreement.

Except for Specially Written Software and Documentation and developed documentation paid for by Post Office, Fujitsu Services will own the intellectual property rights in any materials they create in order to provide the Services to Post Office unless explicitly agreed otherwise.

4.8 Clause 26.-- Post Office Responsibilities

Sets out the principles that apply to Post Office Responsibilities. Post Office is to use reasonable endeavours to do these at its own cost, and to secure co-operation from Agents (subpostmasters and franchisees) where necessary. Fujitsu Services is excused from carrying out any of its obligations which depended on a failed Post Office responsibility.

Further detail is in Schedule 16

4.9 Clause 28.-- Fujitsu Services' Key Personnel

Fujitsu Services undertakes to use reasonable endeavours to retain those of its staff who have been identified as key to achievement of particular tasks for as long as necessary to complete those tasks.

Further detail is in Schedule 6.

4.10 Clause 29.-- Liquidated Damages And Post Office Additional Cost

Fujitsu Services is to pay Post Office compensation for any service level failures. This will be as credit notes (unless Post Office specifies otherwise)

Further details are in Schedule 15

4.11 Clause 31.-- Liability

Allocates liability for losses arising from fraud, hacking etc.

Generally, the liability lies with Fujitsu Services unless the loss was caused by Post Office failure to carry out its obligations and unless the fraud was carried out using access obtained via a third party interface and Fujitsu Services had built and operated this interface to specification.

4.12 Clause 32.-- Limitation Of Liability

Sets out financial limits on the liabilities (other than for personal injury and death) that Fujitsu Services and Post Office have under the Agreement.

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4.13 Clause 33.-- Term And Termination

The Agreement will end on 31 March 2010 unless an extension is agreed by September 2008.

4.14 Clause 34.-- Termination Of Agreement

Sets out the circumstances in which the Agreement can be terminated before 31 March 2010. These include insolvency of Fujitsu Services, change of ownership of Fujitsu Services, material or persistent default by Fujitsu Services. All of these are without payment of any termination charge by Post Office.

Post Office can also terminate the Agreement early by giving 12 months notice and paying a termination charge.

Fujitsu Services can terminate the Agreement early if Post Office (after service of a reminder notice) fails to pay for the services it has received.

4.15 Clause 35.-- Rights On Expiry Or Termination Of Agreement

Sets out Post Office's rights to have hardware, software licences documentation and data transferred to Post Office or to a replacement supplier at the end of the contract.

Further details are in Schedule 22

4.16 Clause 37.-- Audit

Sets out Fujitsu Services' obligation to keep records and Post Office's rights to audit these.

4.17 Clause 45.-- Publicity

Post Office and Fujitsu Services can not make any public announcement about the Agreement or the services provided under it without the agreement of the other. Each party has to avoid damage to the brand or reputation of the other.

4.18 Clause 47.-- Transfer And Sub- Contracting

Fujitsu Services can not transfer the Agreement to any other supplier without Post Office consent. Fujitsu Services is allowed to sub-contract some of its obligations. Agreed sub-contractors are in Schedule 7, and any changes to this are by formal change control.

4.19 Clause 50.-- Confidentiality

Both Parties agree to maintain the confidentiality of confidential information they receive from the other. Confidential information includes the Agreement itself, anything marked as such, and anything that could reasonably be regarded as such.

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4.20 Clause 55.-- Guarantee

This is Fujitsu Services' undertaking to arrange guarantees from two of its parent companies (which are now in place).

5. Schedule 1 – Interpretation

This is an extensive list of defined terms used in the Clauses and the Schedules.

6. Schedule 2 – Policies and Standards

This sets out various laws, regulations and standards with which Fujitsu Services are required to comply. They are largely unchanged from those in Schedule A02 of the previous version of the contract, and include Health and Safety, Data Protection, electrical safety and noise of Branch equipment, system security, "look and feel" of the human-computer interface, and banking industry specific standards.

7. Schedule 3 – Audit

This sets out Post Office rights and processes for auditing Fujitsu Services' performance of the Services, and is largely unchanged from the previous Schedule A03.

8. Schedule 4 – Governance

This defines the processes and meetings by which the provisions of services under the Agreement will be jointly managed by Post Office and Fujitsu Services. There are to be 6 regular meetings, known as Forums, and in addition Project Boards established from time to time to manage delivery of specific developments.

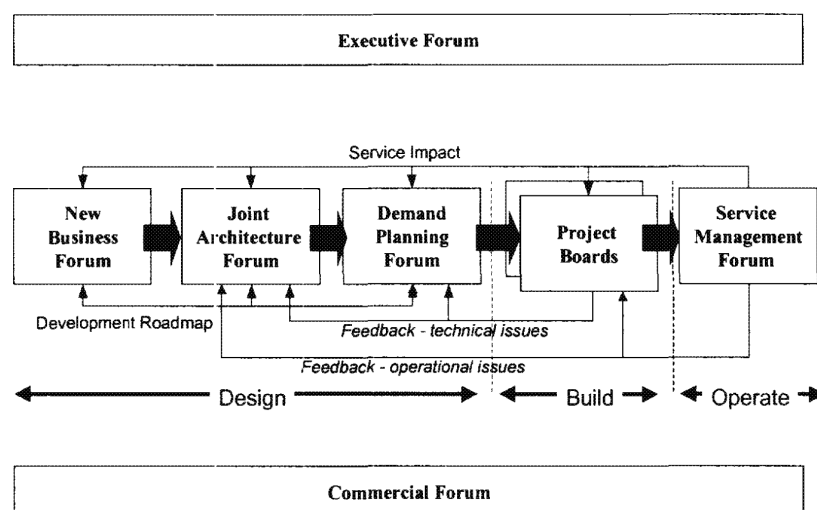
Each Forum has defined areas of responsibility, and valid decisions made by a Forum within its area of responsibility are binding on both Parties. Outside the meeting process, lead attendees from Fujitsu Services and Post Office are empowered to take decisions in order to deal with relevant business promptly.

Certain matters relating to changes to the Agreement and committal of new expenditure by Post Office are subject to separate authorisation processes (dealt with in Schedules 5 and 9 respectively).

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An overview of the Forums and their roles in the development lifecycle is set out in the following diagram:



The responsibilities of the Forums are as follows:

| Forum | Responsibilities |
|--|---|
| Executive Forum, meeting 3 times per annum | <ul style="list-style-type: none"> Defining strategic direction and vision Sharing business objectives and direction Review effectiveness of joint working Joint Scorecards – agreeing what components will be measured, and setting targets Reviewing Joint Scorecards Agree key messages for joint Post Office and Fujitsu Services communications plan Define relationship development direction – ensuring ability to deliver scorecard action plan and to address any issues arising Recognition – agreeing recommendations for recognition. This is key to encourage the behaviours recognised as vital to ensuring a more effective working relationship Agree joint incentivisation targets for projects and services. |
| New Business Forum, meeting every 2 months | <ul style="list-style-type: none"> Generate and investigate new ideas and opportunities that support Post Office strategic business direction for inclusion in Post Office change plan and investigate potential additions to the contracted services. Post Office change plan is monitored by the executive committee of Post Office Scope focuses on new customer propositions and opportunities for improving operations Review progress of milestones undertaken as part of Post Office change plan Manage contingency budgets approved in Work Orders including, where appropriate, delegating authority to appropriate managers |

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| Forum | Responsibilities |
|---|--|
| Joint Architecture Forum, meeting monthly | <ul style="list-style-type: none"> Define and agree target architectures within the Horizon domain Plan and manage migration from current to target architectures Ensure architectural conformance of projects Benefits realisation monitoring (ensuring what was done achieved the benefits forecast, and if not, why not) Manage contingency budgets approved in Work Orders including, where appropriate, delegating authority to appropriate managers |
| Demand Planning Forum, meeting monthly | <ul style="list-style-type: none"> Communication of service development plans – Post Office and Fujitsu Services Agree high level planning assumptions for future developments of services Joint planning to manage the allocation of pre-paid SI resources and the progressive commitment to incremental resource above that level Initiate, monitor and ensure progress on development of service definitions and terms and conditions for additions to the contracted services Approve additions to contracted services (that will then be formally introduced by CCN) Oversight of agreeing Work Packages Prioritise releases in terms of schedule and contents, in accordance with strategic direction and objectives set by Executive Forum, and in accordance with any operational constraints (Note – final decision for Releases to go live will be made by Service Management Forum) |
| Project Boards, meeting as required for each project. | <ul style="list-style-type: none"> Managing Work Packages which relate to major development programmes Manage contingency budgets approved in Work Orders including, where appropriate, delegating authority to appropriate managers Project management and governance as per this Agreement or, to the extent not in conflict or inconsistent with this Agreement, PRINCE 2 standard practice. For example: <ul style="list-style-type: none"> Review and resolution of operational issues arising in design, development and testing Review progress and performance against plan Notwithstanding the Parties' use of PRINCE 2, or any other design or project management methodology, the provisions of this Agreement shall not be varied by such use unless the Parties agree otherwise in accordance with the Change Control Procedure |
| Service Management Forum, meeting monthly | <ul style="list-style-type: none"> Review performance against contracted service levels and agree remedies payable (if any) Track MTBF rates, review operational reliability of Branch Infrastructure and consider/recommend remedial courses of action (e.g. full or partial technological refresh or service level relief) Resolve operational issues including, but not limited to, those arising from non-conformance to contracted service levels Release Authorisation: agree the criteria and processes by which releases will be authorised for release into field trial or live operation and carry out readiness reviews accordingly Ensure continuous improvement in the ongoing/steady state/business as usual Service Management environment Review of future change plans to ensure live environment is adequately prepared Capacity management Monitor and review operations of Operational Business Change processes |

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| Forum | Responsibilities |
|-----------------------------------|--|
| Commercial Forum, meeting monthly | <ul style="list-style-type: none"> • Management and administration of the Agreement • Circulation to Lead Attendees of each relevant Forum of the financial authority levels • Oversight of ordering and Invoicing processes • Agreement of standard terms and conditions from time to time to apply to different types of Work Order • Agreement of Commercial Terms in relation to Work Orders • Oversight of the carrying out of Work Orders • Management of price reviews under the benchmarking and open book accounting provisions of Schedule 11 • Review and, where necessary, improvement of the Change Control Procedure • First level of escalation for disputes about the interpretation of this Agreement, its Schedules or CCDs, about invoice amounts or terms, or about other matters referred by the Executive Forum |

Annex 2 of Schedule 4 sets out the escalation procedure for resolving disputes that may arise between Post Office and Fujitsu Services.

There are up to 5 stages in the escalation procedure that may be used:

1. Review by the relevant Forum
2. Review by senior negotiators appointed by each party
3. Review by members of the Executive Forum, possibly with assistance from an external facilitator
4. Either Mediation or Expert determination
5. Court case

9. Schedule 5 – Change Control

This sets out the Change Control processes to be used for changing the provisions of the Agreement and its subsidiary Contract Controlled Documents (CCDs) and Contract Referenced Documents (CRDs). There are significant changes relative to the previous contract. Only the Clauses and Schedules (and a small number of CCDs that affect pricing or security) are subject to the more formal (“Hard”) change control. Most of the CCDs are under “Soft” change control and are allocated to one of the Forums for that purpose. CRDs may be amended by the Party which “owns” that CRD.

The effect of this change is to combine the former document review and change control processes into a single process, with the objective of speeding up decisions and reducing costs.

10. Schedule 6 – Fujitsu Services’ Key Personnel

Fujitsu Services are required to keep certain key staff in their current roles until specific deliverables have been produced, or changes implemented. This schedule sets out the management processes relating to this; the key staff are listed in a confidential document referred to in the schedule.

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POST OFFICE CONFIDENTIAL - COMMERCIAL**11. Schedule 7 – Subcontractors**

This lists approved Subcontractors, the scope of the services subcontracted to them, and the term of the subcontracts. Fujitsu Services are required to get Post Office approval before changing these. The Schedule also sets out specific provisions relating to any future insolvency of Energis (who are the telecommunications subcontractor).

12. Schedule 8 – Form of Parent Company Guarantee

This sets out the form of the guarantees provided by Fujitsu Services Holdings plc (the former ICL plc), and Fujitsu Ltd. (the Japanese parent company).

13. Schedule 9 – Ordering, Invoicing and Payment

This sets out the processes by which Post Office can order call-off or additional services from Fujitsu Services, and the Invoicing and Payment processes that apply to all services provided under the Agreement.

14. Schedule 10 – Charges

This sets out the payments that Post Office is due to make to Fujitsu Services throughout the term of the Agreement and discounts to be given to Post Office by Fujitsu Services. The Schedule defines how some of the charges will be adjusted, for example as a result of changes in the number of Branches. It also sets out the rates that will apply to additional work (unless agreed otherwise for specific cases).

The main charges are:

Operational Charges. This covers the provision of the Operational Services (described in Schedule 19). These are to be paid monthly for the duration of the Agreement. They reduce over time as the number of Branches is expected to decline, and as various efficiency improvements are phased in. Elements of these charges are variable by number of Branches (the telecommunications charge) and by number of counter positions (System Service charge).

Availability Fee. This covers the remaining payments for the original Horizon roll-out, and is payable monthly to March 2005. It is unchanged from the previous contract.

Systems Integration (SI) Commitment Fee. This pays for the Fujitsu Services development team, who provide technical support to the live services. The fee also covers some pre-paid resource available for new development work. This amounts to around 13,260 days work per annum initially, reducing to around 9,180 as efficiency savings are made and the size of the SI team is reduced. The SI Commitment Fee reduces over time.

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Implementation Charges. – Post Office is to pay costs for hardware and software required for Fujitsu Services' changes to their central systems (required to reduce Operating costs) and for memory chips to enable an upgrade of the Branch terminals. Post Office will pay the actual costs, including management overhead, subject to an overall cap.

Special Discounts and Supplemental Charge. – Fujitsu Services will give Post Office substantial discounts in each of the first 3 years of the Agreement, and Post Office will pay a supplemental charge in year 4. These discounts and supplemental charge have been agreed to smooth the payment profile over the extended term of the Agreement.

Dependencies. There are some key dependencies on which the price reductions in the Operational Charge and the SI Commitment Fee depend. If these dependencies are failed, then additional charges will be payable by Post Office. These dependencies are:

- ADSL Coverage – if the number of branches at which BT can provide ADSL (broadband) lines is lower than forecast, then the Operational charge will increase to cover the difference between ADSL and ISDN.
- ADSL Implementation – Fujitsu Services are relying on 1500 spare sets of Horizon equipment being freed up by reduction in the number of branches in order to provide a pool of equipment for swap-out during ADSL installation. If this is not achieved by 31 March 2004, then the price reduction will be delayed.
- ADSL line rental – Prices assume that an existing PSTN phone line is available at each Branch for upgrade to ADSL. Post Office will have to pay line connection and line rental if any new PSTN lines are required for this purpose.
- End-to-end re-architecture of Post Office processes and systems:
 - Fujitsu Services are relying on this to enable efficiencies in their operational services. If this is not achieved or delayed, then there will be an additional charge.
 - Fujitsu Services are relying on this to simplify reconciliation and reduce the number of interfaces that have to be supported. If this is not achieved or delayed, or if the method of rearchitecture does not result in the expected simplification, then there will be an increase in the SI Commitment Fee.
- Changes to Requirement Capture, Documentation and Testing – Fujitsu Services are relying on simplification in these areas to enable cost savings, and an increased SI Commitment Fee will be payable if this is not achieved.

Other Charges. Other charges are payable on a call-off basis. These include:

- Additional development resources, chargeable on a daily rate depending on grade
- Branch Operational Business Change – prices and arrangements are unchanged, with 1% closures and 1.6% relocations or openings per

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annum covered in the Operating Charge, and additional work being paid for at pre-agreed prices listed in the OBC catalogue.

- Message Broadcast Service – paid for on a per use basis.
- Payment for data links to Clients which have been introduced under the change control process and which will be payable each month unless Post Office cancels that particular facility.

Indexation. Most of the charges (but not the Availability Fee, Supplemental Charge and Special Discounts) are subject to annual adjustment for inflation in line with changes to the Retail Price Index.

Current Developments. One-Off Payments for Banking (including Web Riposte licences) and for PIN Pads are set out in a separate annex to Schedule 10. These are unchanged from the previous version of the contract, except that some banking development work is covered by the pre-paid SI resource, and is therefore no longer separately chargeable.

Limits. Schedule 10 also sets out various limits on Branch equipment numbers. Initially, these are unchanged from the previous contract. From 31 March 2004, numbers are reduced to allow for spares that Fujitsu Services require to support ADSL roll-out, and from 31 March 2005 there is a further reduction to allow for an increased stock of maintenance spares.

After 31 March 2005, ink jet printers will be phased out to be replaced by laser printers, and CRT screens will be phased out and replaced by flat screens.

15. Schedule 11 – Value for Money

This sets out three mechanisms that will be used to ensure that the services provided by Fujitsu Services continue to represent value for money. These mechanisms will apply to existing services specifically listed in this Schedule and to all new services and are as follows:

Benchmarking – comparison of Fujitsu Services prices with those of comparable services (or a mix of comparisons if no single comparator is available). This is applicable from September 2005 onwards, and covers the following existing services: Help Desk; engineering service (field maintenance); and Data Centre operations. Benchmarking is to be carried out by an independent expert.

Competition – At Post Office's discretion, any new services can be put to competitive tender.

Open Book – Used in the following circumstances:

- Post Office and Fujitsu Services are proposing to work together in relation to the proposed new or modified service;
- Post Office decides that competition is inappropriate because the Horizon Services Infrastructure contains bespoke design; and/or

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- the proposed service differs markedly from industry norms.

Examples where open book would apply are: systems integration and development network communications, specialist operations and support functions.

Open Book only results in an automatic price adjustment if this has been specifically agreed – a watch point when agreeing Work Packages,

Schedule 11 also refers to possible models for sharing risks and rewards of new developments. These include possible investment by Fujitsu Services in return for a share in resulting revenues. Neither Fujitsu Services nor Post Office is committed to any such arrangement, and terms would have to be agreed case by case.

16. Schedule 12 – Timetable

This lists significant contractual events, with their intended dates, dependencies, and consequences of delay or non-occurrence of the event.

There are a number of “themes” running through the list:

Implementation of new ways of working together:

| | |
|--|-----------------|
| New joint forums up and running | 31 January 2003 |
| Standard Terms and Conditions for development and consultancy work packages agreed | 31 January 2003 |
| First Resource Plan agreed | 31 January 2003 |
| Resource planning fully implemented and baseline plan for 2003/4 in place | 31 March 2003 |
| New Service Level reporting – interim basis | 31 January 2003 |
| New Service Level reporting – full basis | 30 June 2003 |
| Confirmation Wigan and Bootle data centre leases to be extended | 31 March 2003 |
| Processes for producing Conceptual Designs and Design Proposals to be agreed and documented | 31 March 2003 |
| Contract transferred from Pathway subsidiary to main Fujitsu Services Ltd. operating company | 1 April 2003 |
| New (simpler) processes for testing and acceptance agreed and documented | 31 August 2003 |

There are cost reductions linked to agreement of the new processes for design and testing which will be delayed if the relevant process documents are not approved by the required dates.

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POST OFFICE CONFIDENTIAL - COMMERCIAL***End to End re-architecting of Post Office processes and systems:***

| | |
|---|-------------------|
| Feasibility study completed and financial estimates delivered | 28 February 2003 |
| Review of procurement approach and commercial terms for programme | 1 March 2003 |
| Start of Requirements Analysis | 1 March 2003 |
| Post Office decide division into Work Packages | 1 June 2003 |
| Completion of Requirements Analysis | 31 July 2003 |
| Fujitsu Services deliver Design Proposal for Work Packages | 31 August 2003 |
| Start-up phase of solution build | 1 September 2003 |
| Fujitsu Services deliver commercial proposal for Work Packages | 30 September 2003 |
| Fujitsu Services start formal build and test stage | 30 October 2003 |
| Price reduction linked to simplification of system boundaries and improvement of reference data processes | 1 April 2004 |
| Pilot Implementation completed | 31 March 2005 |
| Price reduction linked to SI headcount reduction | 1 April 2005 |

Delays in earlier stages (if caused by Post Office) will result in delays to price reductions. Price reductions depend on the end to end solution agreed by Post Office meeting certain constraints that are necessary in order for Fujitsu Services to make their cost savings.

Switch-over to ADSL (broadband) telecomms links to branches:

| | |
|----------------------|-----------------|
| Start of Field Trial | 31 October 2003 |
| Start of roll-out | 1 April 2004 |

Large cost reductions are conditional on ADSL implementation; these will not be achieved if Post Office does not authorise roll-out (unless this is because of failure of the field trial stage).

Rationalisation of OBC process to reduce OBC costs:

| | |
|---------------------------------|-----------------|
| Agreement of terms of reference | 31 January 2003 |
| Completion of joint study | 31 March 2003 |

17. Schedule 13 – Licences

This lists the “end-user” licences that entitle Post Office staff and agents to use the Horizon system in our Branches. This Schedule also details a sub-licence which Post Office has given to Fujitsu Services to allow their use of software from Siemens Metering that is required for the Quantum AP smart card service.

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There are also more detailed licence arrangements relating to use of Escher Web Riposte and Asset Manager products in Horizon.

The above arrangements are all unchanged from the previous version of the Agreement.

18. Schedule 14 – Consumables

This sets out the consumables that are approved by Fujitsu Services for use on Horizon Branch equipment, and sets out the arrangements under which Post Office can opt to have these provided by Fujitsu Services. (Currently consumables are sourced from a third party.) The list of consumables is unchanged from the previous version of the Agreement, but Post Office now has the right to use substitutes without getting prior approval from Fujitsu Services; but any use of unapproved consumables is at Post Office risk, and Post Office would incur the cost of any equipment repair or replacement if such consumables damaged or reduced the life of the equipment.

19. Schedule 15 – Service Levels and Remedies

This sets out the quantified service levels that Fujitsu Services are required to meet in providing the services, and the arrangements under which the Post Office may receive financial compensation for service level failures.

There are up to three service targets associated with each service level:

Service Level Threshold (SLT) is the required level of performance – failure of an SLT will be reported and remedial actions agreed as appropriate by the Service Review Forum. The values of SLTs are in a separate document under soft change control and managed by the Service Review Forum.

Liquidated Damages Threshold (LDT) is the level of performance below which financial compensation is payable to Post Office according to pre-agreed formulae.

Additional Remedy Limit (ARL) is a lower level of performance below which Post Office has the option of either receiving further payments in accordance with the liquidated damages formulae, or of claiming actual costs incurred as a result of the failure.

Provisions in previous versions of the contract gave Post Office an automatic right to terminate the contract for service level failures. These have been removed and are replaced by the arrangements for additional compensation for ARL failures described above. (Post Office is still able to terminate the Agreement if service level failures were sufficiently severe and prolonged to constitute a material breach of contract.)

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Service levels are grouped under 4 main headings:

- Support Desk Services, including help desks and engineering services;
- Data Delivery Services;
- Banking Services (including debit card services); and
- Miscellaneous Services including installation services and reporting and correction of data errors and exceptions.

The values of many of these are unchanged from the previous version of the Agreement. However, the various “100%” targets relating to data delivery within 4 days and repair of faults in branches within time limits have been removed. Fujitsu Services are still incentivised to perform well in these areas by increased financial compensation for any failures.

Service levels are subject to adjustment if certain limits are exceeded. These are numbers of help desk calls and engineering visits (in Annex 5 of the schedule) and various business volume limits in a CCD.

20. Schedule 16 – Post Office Responsibilities

This sets out the contractual provisions that cover Post Office responsibilities and obligations under the Agreement. This is substantially unchanged from the previous contractual position.

If Post Office fails to complete, or delays completion of one of its responsibilities, then Fujitsu Services is not obliged to carry out any of its responsibilities which were dependant on that Post Office responsibility.

There are specific provisions relating to Network Banking (which have been carried across unchanged from the previous version of the Agreement) under which Fujitsu Services may also, in some circumstances, be entitled to additional costs it incurs because of a Post Office failure or delay.

21. Schedule 17 – Infrastructure

This describes the current technical infrastructure used to provide Horizon services. It is derived from corresponding sections of the previous version of Agreement and re-organised, but substantially unchanged.

22. Schedule 18 – Application Management

This describes the existing applications (including banking and debit cards) at a high level and refers to Contract Controlled Documents (CCDs) for more detailed specification. Much of the detail in the service definition schedules in previous versions of the Agreement is now in CCDs and therefore under soft change control, managed by the Joint Architecture Forum.

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POST OFFICE CONFIDENTIAL - COMMERCIAL**23. Schedule 19 – Operational Services**

This lists the Operational Services that Fujitsu Services provides. More detailed specifications of each of these are provided in Contract Controlled Documents (CCDs) that are listed in the schedule. The services are as follows:

| Operational Service | Brief Service Description |
|---|--|
| Horizon Systems Help Desk Service | The provision of first and second line support to Post Office Branches and other designated groups through the provision of a support desk function. |
| Technical Service Desk | The service provides a single point of contact for network banking domains (including those involved in Debit Card) reporting the occurrence of technical incidents and problems with banking services. |
| Engineer Service | Service comprises an on-site replacement or repair service for broken or faulty equipment at Branches together with associated back-up, support and administrative functions. |
| Operational Business Change – Branch (pre-paid element) | A collection of services which can be procured by Post Office in relation to changes to the Horizon hardware configuration in Post Office locations. This service supports physical changes in the Post Office branch infrastructure through the provision of a range of services. The service supports both planned and unplanned changes. |
| Data Centre Operations Service | Service for managing the central operating infrastructure and data communications network. |
| Network Service | Provision of network infrastructure. Operational network management and supplier management of Energis included within Data Centre Operations Service and Service Management Service. |
| Systems Management Service | Event management and software distribution services. |
| Product Support Service | Services related to software licences. |
| Reference Data Management Service | Service for the management of Reference Data. |
| Third Line Software Support Service | Service for the diagnosis of new software incidents occurring in Branches and the data centre. |
| Management Information Service | The service provides a mechanism for the reporting and publishing of Fujitsu Services' achievement of Service Levels and targets. The service also provides data for the settlement of liquidated damages, and provides a vehicle for the request of information regarding data captured on the Horizon Service Infrastructure. |
| Transaction Benchmarking Service | The service defines a benchmarked standard in respect of system components for individual Transactions or an aggregated time for nominated Transactions across each of the Services. |
| Service Management Service | The objectives of the service are to monitor, manage and maintain the delivery of the Operational Services using the Applications and to report on the same to the Service Management Forum. |

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| Operational Service | Brief Service Description |
|---------------------------------------|---|
| Reconciliation Service | This service provides end-to-end reconciliation and incident management procedures required to investigate, report and resolve reconciliation and business incidents. This includes the Network Banking Reconciliation & Incident Management procedures which shall commence from the start of NB Pilot (Soft Launch). |
| Security Management Service | This service provides a wide range of security related activities required for ISO 17799 compliance. |
| Operational Business Change – Branch | A collection of services which can be procured by Post Office in relation to changes to the Horizon hardware configuration in Post Office locations. This service supports physical changes in the Post Office branch infrastructure through the provision of a range of services. The service supports both planned and unplanned changes. |
| Message Broadcast Service | The service enables Post Office to communicate directly with Branches for the purpose of issuing instructions, advice or information urgently. |
| AP Business Change Services | <u>Client Take-On Service</u> Service for the provision of amendments to APS Clients and Tokens. <u>AP Client Delivery Agreement Change Service</u> Service that provides Post Office with the facility to request changes to the delivery agreement for a live APS Client – for instance to change the days of the week when files are to be delivered to the APS Client. <u>AP Client File Re-send Service</u> Service that provides Post Office with the facility to request that APS Client Transaction files are re-sent. |
| Horizon Icon Service | Service for the provision of new Icons. |
| Capacity Management Service | Service to manage the capacity of the Horizon Service Infrastructure. |
| Additional EPOSS Data Capture Service | Service to provide Post Office with a means by which a number of item Additional Fields can be associated with an EPOSS product during a customer session. |
| Counter Training Service | Service to upgrade software in the Post Office estate of training and demonstration counter positions. |

24. Schedule 20 – Development Services

This sets out the processes that may be followed for new developments on, or in connection with, Horizon; the roles that Fujitsu Services and other (“third party”) suppliers may take; and the commercial and resource management arrangements that will apply.

The services covered are:

- Professional Services; i.e. consultancy, strategy development and requirements studies;
- Software Development;
- Systems Integration.

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Physical implementation work in Branches is covered in Schedule 23.

The Schedule also refers briefly to SI Support Services (that is, 4th line support to the operational services, and Fujitsu Services' internal re-architecture project) and to Current Development Services which were ordered before 1 January 2003 (mainly banking and debit cards) and which will continue to be delivered in accordance with existing agreements, as documented in Schedule 24 and in relevant Change Control Notes.

The following is a summary of the main provisions of the Schedule.

Application Development and Procurement

Standard applications, i.e. "packages" are generally preferred to bespoke developments, but if no suitable package is available Post Office may procure a bespoke application. In either case, Post Office may choose to source the application from Fujitsu Services or from a third party for subsequent integration into Horizon by Fujitsu Services, subject to its suitability for this purpose.

Systems Integration and Systems Implementation

Fujitsu Services are the sole supplier of Systems Integration and Systems Implementation on Horizon. Post Office may appoint other integrators (or undertake the integration work itself) for other domains, or as a top level integrator across domains including Horizon and others.

Contracting for Development Services

Post Office orders development services from Fujitsu Services by placing Work Orders. These are, in effect, mini-contracts within the framework of the main contract, and each Work Order will include the specification of the work to be done, and the commercial terms that apply.

There are 2 different approaches to the development lifecycle, and the filling of the roles in the Post Office IS Landscape, depending on whether the development is to be procured competitively ("Competitive ISL"), or obtained from Fujitsu Services on a single tended basis ("Joint ISL".) The initial phases of the lifecycle are the same in both approaches, and are referred to as "Common ISL".

Common ISL

The common stages at the start of the lifecycle are:

- Strategic Approval
- Start-Up and Feasibility

and information is derived during these stages to inform Post Office's choice of which approach to follow for any particular development.

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Competitive ISL

This is only relevant to services where Fujitsu Services does not have sole supplier status, and so is not applicable to Systems Integration and Systems Implementation on Horizon.

This will be planned on a case by case basis. Post Office and Fujitsu Services will develop an overall plan that balances the need to achieve time to market with the need for Fujitsu Services to safeguard its commercially confidential information.

Joint Working ISL

This will follow a standard set of stages:

Requirements Analysis, normally managed by Post Office;

- Solution Specification,
- Solution Build and Test,
- Implementation, all normally managed by Fujitsu Services.

There will be clear ownership of each stage, and close collaborative working. Stages will be overlapped where appropriate, but with clear decision points where Post Office will approve work orders (or not) dependant on the outcome of earlier stages, and business case approvals.

Substantial Work Packages may be subdivided and, at Post Office option, some may be placed with other suppliers if this is more cost effective.

Fujitsu Services will no longer formally maintain some of its technical documentation, unless Post Office commissions an update. This includes the Systems Architecture Design Document, and the Generalised Applications Programming Interface specification, after these have been updated to include Network Banking developments. However, Fujitsu Services will make their internal documentation available on an "as is" basis to Post Office and third party developers (subject to non-disclosure agreement).

New processes for requirements capture and for testing and acceptance are to be developed by 31 March 2003 and 31 August 2003 respectively. These will both be simplified processes following high level principles set out in the Schedule.

Development Resource Management

Post Office pays for Fujitsu Services to maintain a core Systems Integration capability, and this includes a team of developers available to undertake new developments – if this capacity is not used, Post Office still pays but gets no value from the expenditure.

There is a joint process for managing the utilisation of this pre-paid resource through a joint working group meeting monthly to review the previous period and revise forward plans.

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If the development workload is greater than the core team can support, then Post Office can order additional resources from Fujitsu Services. The price for this is based on man-day rates listed in Schedule 10, but with discounts of 20% (or more by agreement on a case by case basis) if large amounts of work (20 developers for 6 months or 10 developers for 12 months) are ordered at least 3 months in advance.

There are lead times for ordering additional resources. Fujitsu Services undertakes to get the resources within these lead times (ranging from 2 months for 10 developers to 9 months for 100) and will try to get them on shorter notice.

Post Office can cancel additional resources that have been ordered, but may have to pay a cancellation charge of 50% of the rates for the cancelled work, depending on the amount cancelled and the notice given. However, developers can be switched between jobs at no additional cost.

The Demand Planning Forum will review the skills mix of the core team every 6 months to ensure that the skills available remain aligned with the changing support and development needs over the life of the contract.

Utilisation of Core Team

Fujitsu Services underwrites a minimum level of utilisation of the Core SI team, regardless of the actual amount of work that they carry out. The level of the guarantee depends on the total development work ordered, and on this being "smoothed" over the year; with guideline for acceptable "smoothing" being 2 releases in the year with no more than 30% difference in release work content.

Provided that the workload is "smooth", the guarantee ranges from 60% to 100%, depending on workload. For workload which is not "smooth", the guarantee is reduced by half.

If the guaranteed level of utilisation is not achieved in any quarter, then Fujitsu Services will give Post Office a compensating reduction in the cost of the additional resources that Post Office had to purchase as a consequence.

25. Schedule 21 – Business Continuity

This sets out Fujitsu Services' obligations to have contingency plans and arrangements in place to ensure continuity of the operational services (other than in very exceptional circumstances covered by force majeure). The schedule also provides for a programme of business continuity tests.

26. Schedule 22 – Contract Termination and Service Transfer

This sets out the arrangements that will apply towards the end of the Agreement, or if Post Office terminates it early. The arrangements are an improvement on the previous position, providing greater certainty and earlier

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information to allow Post Office to develop its sourcing strategy for services after the end of the Agreement.

Key terms are:

- Early provision of information about assets (hardware, software, documentation, subcontracts and leases) that could be transferred to Post Office or a future new supplier, and development of outline options and strategies
- Provision of fully developed exit options starting 2 years before the end of the Agreement.
- Arrangements to allow disclosure of information about Horizon to potential new suppliers (subject to Post Office obtaining non-disclosure agreements from them) come into effect 2 years before the end of the Agreement.

If Post Office terminates the Agreement early (other than in circumstances such as a major failure by Fujitsu Services to provide the services) then a termination charge will be payable to cover Fujitsu Services' costs and to compensate Fujitsu Services for loss of profit.

27. Schedule 23 – Branch Hardware Implementation Services

This sets out arrangements that will apply in future to any implementation of new hardware, or hardware upgrades in Branches (where the hardware is linked to Horizon or if Post Office chooses to use Fujitsu Services to procure, install or maintain stand-alone hardware.)

The Schedule sets out the roles and responsibilities that could be assigned to Fujitsu Services, Post Office, or a third party supplier to Post Office (for example, Romec).

Fujitsu Services are the sole supplier of software and associated support, and will always carry out assessment and testing of the suitability of hardware for connection to Horizon. Post Office will have sole responsibility for non-technical support to installation, such as arranging access to Branches. Other roles will be decided by Post Office on a case by case basis.

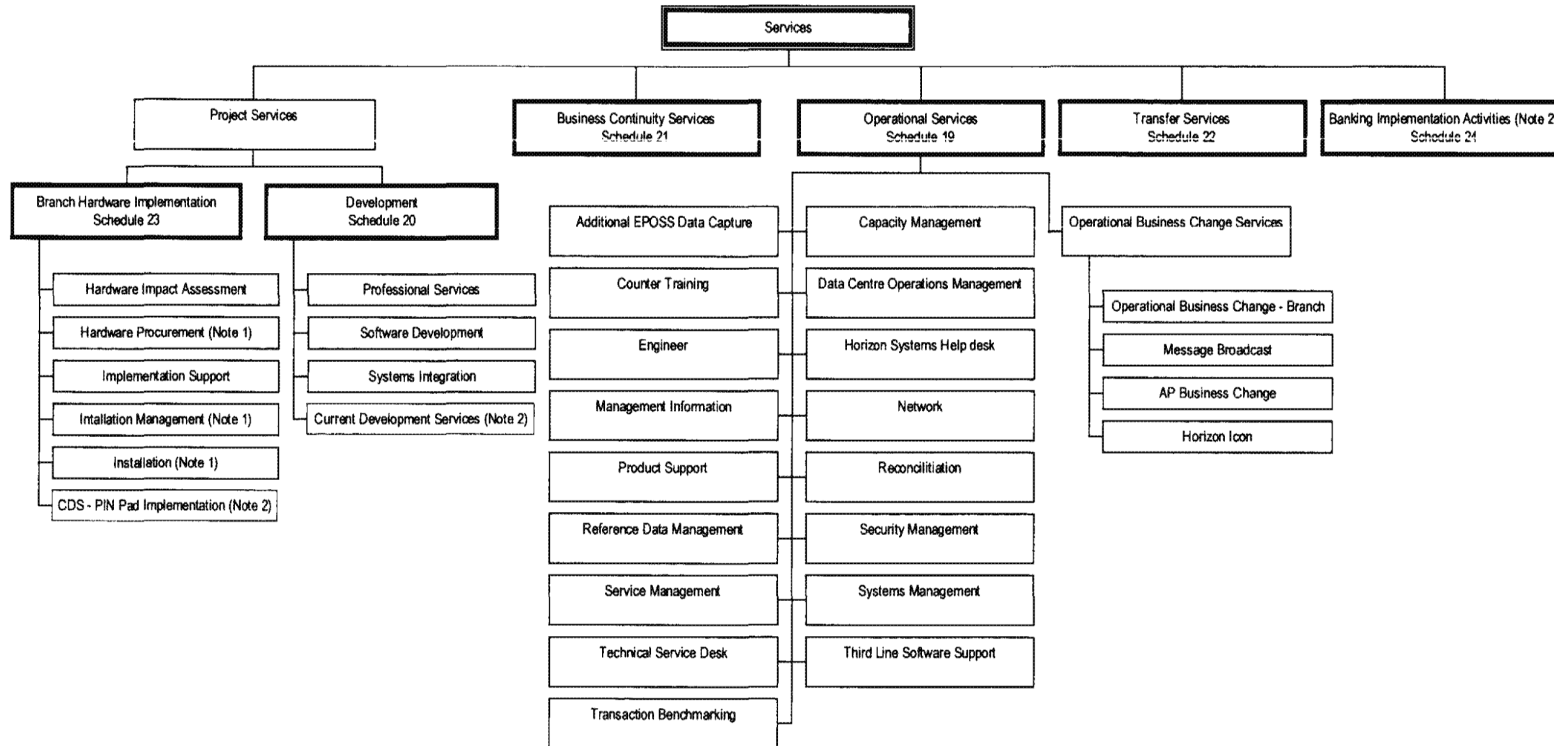
28. Schedule 24 – Banking Implementation

This covers project management, development, acceptance and implementation of Release 1 Banking, and the provision and deployment of PIN Pads. The Schedule is based on the corresponding provisions in the previous version of the Agreement with no significant changes.

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Annex 1
Overview of Services Provided



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