POL00027946

CONFIDENTIAL

SCHEDULE D3

GAIN SHARE

Version History

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POL00027946

SCHEDULE D3

GAIN SHARE

1. INTRODUCTION

1.1 Where, in accordance with the provisions of this Agreement, in particular those relating to the governance and functions of the SIP set out in Schedules A2 and B1.2, the Parties agree to share the benefit resulting from a cost saving initiative or future development work:

1.1.1 the principles set out in this Schedule D3 (referred to in this Agreement as "Gain Share") shall govern the arrangements for sharing that benefit; and

1.1.2 the details of the arrangement shall be agreed on a case by case basis under a CCN or Work Order or otherwise agreed in writing.

2. BENEFITS ELIGIBLE FOR GAIN SHARE

2.1 The benefits from future initiatives or developments that shall be eligible for Gain Share (subject to agreement in accordance with paragraph 1.1.2) ("Benefits") are as follows:

2.1.1 net savings in Fujitsu Services' costs of delivering the HNG-X Services:

(a) excluding those resulting from any Partial Termination;

(b) excluding those resulting from measures taken by Fujitsu Services to reduce the costs in its business generally (except to the extent those measures have been taken specifically in order to generate savings in the provision of Services to Post Office);

(c) as adjusted to allow for variations in the number of Branches, Counter Positions and all other variables referred to in Schedule D1; and

(d) subject to paragraph 5.3, achieved without changing the HNG-X Services, the Service Levels or other provisions of this Agreement;

2.1.2 net savings in Post Office's costs, achieved by involving the SIP, in respect of future IT developments;

2.1.3 net savings in Post Office's non-IT costs that result from initiatives brought to the SIP by Fujitsu Services; and

POL00027946

2.1.4 Post Office's increase in profits or reduction in losses arising from new additional revenues from product developments that result from initiatives brought to the SIP by Fujitsu Services. This shall be net of any contribution that is displaced by the new product.

2.2 Where the Parties identify potential initiatives or developments that may result in Benefits arising:

2.2.1 the most appropriate Party shall produce a reasonably detailed business case in writing analysing the potential initiative or development, amounts proposed for investment and the potential Benefits arising. Information from each Party required to produce such a business case that is obtainable through operation of the provisions of Schedule D4 shall be used in such business case; and

2.2.2 such business case shall be presented to the Systems Integration Partnership and Executive Relationship at the earliest opportunity which shall be responsible for determining as soon as reasonably practicable whether and how to implement the relevant initiative or development. The Parties shall only proceed with an initiative or development where they agree that sufficient Benefits will arise from the relevant initiative or development to provide an adequate return to enable each Party to obtain approval for their respective business cases in accordance with internal policies then in force.

2.3 In relation to Benefits within the scope of paragraphs 2.1.2, 2.1.3 or 2.1.4, these shall only be shared by the Parties if the initiative or development work in question is included in the Working Document managed by the Systems Integration Partnership and Executive Relationship referred to in Annex 1 to Schedule A2.

3. **PAYMENT/CREDIT**

3.1 Benefits may be apportioned between the Parties by:

3.1.1 sharing (in accordance with the principles set out in this Schedule) the cost savings that arise from the cost saving initiative or development in question and:

(a) in the case of cost savings made by Fujitsu Services, reducing the Charges under the Change Control Procedure to reflect Post Office's share of those cost savings; and/or

(b) in the case of cost savings made by Post Office, agreeing the payments that will be made by Post Office to Fujitsu Services to reflect Fujitsu Services' share of those savings,

POL00027946

in each case, provided that each party has carried out those actions that it agreed to undertake in order to achieve the relevant Benefits; and/or

3.1.2 sharing (in accordance with the principles set out in this Schedule) Post Office's increase in profits or reduction in losses arising from new additional revenues that result from the initiative or future development in question.

3.2 If the Parties agree that paragraph 3.1.1(b) or 3.1.2 apply, Post Office shall pay Fujitsu Services' agreed share of the Benefits which, unless otherwise agreed, shall be invoiced monthly in arrear in accordance with the provisions of Schedule D2.

3.3 The amount of the Benefits from each initiative or development available for Gain Share by each Party shall be ascertained in accordance with the provisions of Schedule D4.

3.4 Any agreed share of Benefits duly payable to Fujitsu Services under this Schedule D3 shall continue beyond termination or expiry of the entire Agreement, and the Open Book provisions in Schedule D4 shall continue to apply to enable verification of the Benefits available.

4. GAIN SHARE PRINCIPLES

4.1 Subject to paragraph 5, the Benefits resulting from each initiative or development shall be shared between the Parties according to the following principles:

4.2 Investment Recovery

4.2.1 Each Party shall be entitled to recover:

(a) its actual investment in the initiative or development; plus

(b) sufficient additional amounts to deliver an internal rate of return equal to the official Bank of England rate plus 2% per annum,

to the extent the aggregate of (a) and (b) is less than or equal to the Benefits (such amount being the "Investment Recovery").

4.2.2 Investment Recovery by each Party shall be achieved over the life of the assets acquired for the initiative or development or the duration of the initiative or development (as applicable) and shall be phased such that Investment Recovery is paid for out of the Benefits.

4.2.3 The amount of the Benefits utilised for Investment Recovery shall (if possible) be a fixed proportion (to be agreed on a case by case basis)

POL00027946

of the Benefits in each of the years over the life of the assets acquired for the initiative or development or the duration of the initiative or development (as applicable).

4.2.4 Each Party's Investment Recovery as a share of the Benefits shall be in proportion to the amount actually invested by that Party in the initiative or development as compared to the amount actually invested by the other Party in that initiative or development.

4.3 **Additional Benefits**

4.3.1 Subject to paragraph 4.4.1, where Fujitsu Services provides actual investment entitling it to an Investment Recovery under paragraph 4.2, the proportion of the Benefits remaining after that allocated for Investment Recovery in accordance with paragraph 4.2 ("Additional Benefits") shall, subject to paragraph 4.3.2, be allocated between the Parties as follows:

(a) in the first twelve calendar months of Investment Recovery, Additional Benefits shall be allocated 70% to Fujitsu Services and 30% to Post Office;

(b) in the twelve calendar months after (a), Additional Benefits shall be allocated 50% to Fujitsu Services and 50% to Post Office;

(c) in the twelve calendar months after (b), Additional Benefits shall be allocated 30% to Fujitsu Services and 70% to Post Office; and

(d) in subsequent years all Additional Benefits shall be allocated to Post Office.

If the initiative or development in question is implemented in stages or is phased, the Additional Benefits resulting from each such stage or phase shall be treated separately and shared in accordance with the provisions above in this paragraph 4.3 with effect from the date of implementation of that stage or phase.

4.3.2 If Fujitsu Services' anticipated return, being calculated as the internal rate of return of a cash flow at constant prices (i.e. without adjustment for inflation) and before tax, comprising (i) its investment (as a negative amount) and (ii) its Investment Recovery and (iii) its share of the Additional Benefits (each of (ii) and (iii) as positive amounts):

(a) is less than 13% per annum then Fujitsu Services' share of the Additional Benefits shall be increased and Post Office's share decreased such that Fujitsu Services' total return on investment is above its

POL00027946

anticipated total return on investment but no more than the lesser of:

(i) 13% per annum; and

(ii) the level at which Fujitsu Services' and Post Office's similarly calculated anticipated total internal rates of return on investment are equal; or

(b) exceeds 30% per annum then Fujitsu Services' share of the Additional Benefits shall be decreased and Post Office's share increased such that Fujitsu Services' total return on investment is equal to 30% per annum.

In the case of both (a) and (b) any such adjustments to the share of Additional Benefits will be on a basis that takes into account the years in which the investment is made and the extent of investment made in each year.

4.4 **Alternative Approach**

4.4.1 Where Fujitsu Services does not provide any actual investment entitling it to an Investment Recovery in relation to an initiative or development resulting in Benefits or if the application of the principles set out in this paragraph 4.4 in respect of any Additional Benefits would result in Fujitsu Services having a greater share of those Additional Benefits than it would do under paragraph 4.3, then the principles set out in this paragraph 4.4 shall apply instead of those in paragraph 4.3.

4.4.2 In relation to each initiative or development resulting in Benefits, any Additional Benefits (which, if Fujitsu Services does not provide any actual investment, shall be the proportion of the Benefits remaining after that allocated for Investment Recovery to Post Office only) shall be allocated between the Parties as follows:

(a) in the first thirty six calendar months of Investment Recovery, Additional Benefits shall be allocated 10% to Fujitsu Services and 90% to Post Office; and

(b) in subsequent years all Additional Benefits shall be allocated to Post Office.

4.4.3 If the initiative or development in question is implemented in stages or is phased, the Additional Benefits resulting from each such stage or phase shall be treated separately and shared in accordance with the provisions above in this paragraph 4.4 with effect from the date of implementation of that stage or phase.

POL00027946

4.5 For Benefits of the type described in paragraph 2.1.1, if during the periods referred to in paragraphs 4.3.1(a) to (c) (inclusive) and 4.4.2(a) in which Additional Benefits are apportioned (as adjusted in accordance with paragraph 4.3.2, where applicable) it is established through Benchmarking that the Charges for delivering an HNG-X Service (excluding the Gain Share payments (if any) in respect of that HNG-X Service) are above the target price range (as described in paragraph 3.8 of Schedule D6) the Gain Share payments being made to Fujitsu Services in respect of that HNG-X Service shall cease.

5. ALTERNATIVE GAIN SHARE APPROACHES

5.1 The Parties acknowledge and agree that the Gain Share principles set out in this Schedule in relation to the Benefits eligible for Gain Share and the means of sharing those benefits may not be applicable or appropriate to every Gain Share initiative or development.

5.2 Each Party shall consider and shall not unreasonably withhold or delay its agreement to any reasonable modified or alternative Gain Share arrangement proposed by the other Party in relation to a particular initiative or development. Such matters shall be dealt with by the Systems Integration Partnership and Executive Relationship.

5.3 The parties acknowledge and agree that in exceptional circumstances it may be beneficial to consider proposals which generate savings in the Charges but only if the HNG-X Services, Service Levels or other provisions of this Agreement are changed. Any Gain Share payable in such cases shall be agreed on a case by case basis following the general approach set out above.

6. ASSOCIATED DOCUMENTS

6.1 There are no CCDs associated with this Schedule D3.

6.2 There are no CRDs associated with this Schedule D3.