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HEADS OF AGREEMENT

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BETWEEN

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

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 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"). This document (other than paragraph 6) is not intended to be legally binding and neither company will be legally committed to achieving the goals set out in this document unless agreed in a formal contract entered into between them.

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

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- 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 C.
- 1.2 The initiatives to be undertaken to achieve Partnership Plus, as agreed by the parties in their recent discussions, are set out in Attachment A and Attachment B. 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 C 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
  - (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:

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- (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 Better 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



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- 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 contracts with third parties must be respected
- 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 POCL's 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 PO technical approach and design and PO 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.

The provisions of this paragraph 2.3 insofar as they affect the Project as it currently stands, shall be without prejudice to the Related Agreements (including all documents incorporated therein, such as specifications or programme plans).



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- 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 Related Agreements (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 Heads will need to respect 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 one party) will be entitled to appoint three members to the Executive and one of POCL's nominees shall be the chairman of the Executive, with a casting vote.
- 3.2 Pathway or ICL shall be entitled to appoint one representative to attend at any meeting of the Counters Executive Committee (or any sub-committee thereof) where matters relevant to the PPP are to be discussed, in order to take part in the discussion and represent the view of ICL and/or Pathway on the matter in question. Each of the parties acknowledges that the

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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.

POCL currently intends to submit proposals to the Post Office Board (prior to the signing of the Binding Agreement) for the approval by the Post Office Board of its strategic direction in relation to the objectives referred to in these Heads and ICL and Pathway will help to strengthen such submission.

- 3.3 Subject to the approval of the Post Office Board, ICL and POCL will investigate in due course the possibility of having each one's nominee appointed to the board of directors of the other. Such nominee would serve in a non-executive capacity.
- 3.4 The parties will investigate together the most appropriate methods of obtaining the benefit of greater financial retail experience such as, for example, recruiting a new partner with financial retail experience to participate in the PPP. The parties will work together to identify suitable candidates and to agree on the best partner or partners.
- 3.5 To implement the activities of market research and business case development in terms of clause 2.1 and 3.1, ICL shall contribute in the two year period ending 31 March 2001 an aggregate amount of £5m in money or money's worth and POCL shall contribute 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.

STRICTLY PRIVATE AND CONFIDENTIAL  
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4.1 The parties agree that the contracts entered into in connection with the Project ("the Related Agreements") are 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:

- Transition of services by Pathway to include smart-cards, kiosks, HM Government Direct Services and the other matters which are identified in Attachment C. Prices for these services will require the 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
- Extension of the term of the POCL Agreement to March 2010, and such that, as from September 2008, the contract term will continue subject to not less than 18 months termination notice

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 etc) and the parties agree to work together to give effect to that belief.

**5. Looking Forward**

5.1 The parties acknowledge that these Heads are subject to HM Government consent (including any requirements of the DTI). In addition, these Heads are subject to, inter alia, any relevant legal and regulatory constraints (including competition and public procurement issues), consideration of their impact on existing contractual relationships with the Post Office or POCL and any relevant limitations on the Post Office's powers. The parties agree to work together with a view to entering into a definitive, legally binding agreement ("the Binding Agreement") as expeditiously as possible and in any event by 31 December 1998 (or such other date as the parties may subsequently agree).

5.2 The matters set out in these Heads have to be viewed in the context of the discussions which the parties have had with HM Treasury's Independent Advisor in relation to the



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possible restructuring of the Related Agreements and they are subject to a satisfactory resolution of all of the issues arising as part of those discussions (including any issues arising with the Department of Social Security).

5.3 It is acknowledged that in any decision by POCL to invest in new projects described in these Heads with ICL or Pathway, the timely achievement of Acceptance in accordance with the restructured Related Agreements will be a major influence.

5.4 These Heads will lapse if any of the Related Agreements is terminated.

5.5 If the parties do not enter into the Binding Agreement by 31 December, 1998 (or such other date as the parties may subsequently agree) these Heads will 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

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- (vi) 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).

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 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 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.

Signed on behalf of Post Office Counters Ltd.

**GRO**

Signed on behalf of ICL PLC.

**GRO**

Signed on behalf of ICL Pathway Limited

**GRO**

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ATTACHMENT A

PARTNERSHIP

PREVIOUSLY AGREED

JOINT OBJECTIVES FOR PARTNERSHIP  
SHARING OF INFORMATION  
JOINT NBD PROCESS

JOINT SCOPING OF OPPORTUNITIES  
JOINT BUSINESS CASES  
JOINT IMPLEMENTATION PLANS  
SHARE RESOURCES & SKILLS  
PREFERRED SUPPLIER STATUS  
PARTNERSHIP MANAGERS  
REGULAR FORUM – JOINT TOP TEN

- 1:2:1s
- BUSINESS DEVELOPMENT

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 E2E ARCHITECTURE REVIEWS  
JOINT INTERNAL COMMS RE PARTNERSHIP  
JOINT EXTERNAL COMMS/LOBBYING (WHERE APPROPRIATE)  
JOINT PARTNERSHIP DEVELOPMENT BUDGET  
SECONDMENTS (e.g. ACCOUNT MANAGEMENT)

JOINT HR/CAPABILITY REVIEW & plan (e.g. BUSINESS ANALYSTS)

NB – MISSING ECONOMIC IMPERATIVES  
i.e. HARD LEVERAGE  
FROM BANKER'S CRITERIA



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ATTACHMENT B

## PARTNERSHIP

### NEXT STEPS

1. APPOINT SENIOR, DEDICATED PARTNERSHIP MANAGERS (inc. MARKETING & COMMUNICATING PARTNERSHIP WITHIN PO& ICL GROUPS AND EXTERNALLY)
2. APPOINT GROUP LEVEL SPONSORS/CHAMPIONS
3. RECREATE & RELAUNCH PARTNERSHIP (NB – SIGNED BY MESSRS ROBERTS & TODD)
4. AGREE JOINT PARTNERSHIP BUDGET
5. AGREE OBJECTIVES, MEASURES & INCENTIVES (e.g. PARTNERSHIP PERFORMANCE OF THE MONTH AWARD)
6. ALL SENIOR MANAGERS TO HAVE PARTNERSHIP OBJECTIVE
7. REVIEW EXISTING STRUCTURES & SET UP KEY JOINT TEAMS (e.g. BUS. DEV., PROJECT TEAMS, PRODUCT MANAGEMENT)

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## ATTACHMENT C

## SCHEDULE OF FUTURE ADDITIONAL BUSINESS OPPORTUNITIES

AREA	OPPORTUNITIES TO BE ADDRESSED
1. GOVERNMENT GATEWAY	<ul style="list-style-type: none"><li>• Provision of a service for delivery of Government information and completion and printing of forms</li><li>• Development of web engine for interfacing with Government bodies (potentially through GSI) using electronic interfaces as available. Also to include TMS development as required</li><li>• Multi-channel web applications to cover:<ul style="list-style-type: none"><li>- Over the counter</li><li>- Kiosks</li><li>- Internet</li><li>- Call centre support</li></ul></li></ul>
2. SMARTCARDS	<ul style="list-style-type: none"><li>• Solution provided with open standards as required including:<ul style="list-style-type: none"><li>- Card issue service</li><li>- Personalisation of card</li><li>- Application loading</li><li>- Authentication services using PO Trusted Third Party (Entrust) as appropriate</li><li>- Operational use in post offices &amp; PO kiosks</li><li>- Card management services</li></ul></li></ul>
3. KIOSKS	<ul style="list-style-type: none"><li>• Government Gateway service to kiosks within/without Post Office estate</li><li>• Other commercial applications as agreed consistent with counter applications</li></ul>
4. INTERNET	<ul style="list-style-type: none"><li>• Government Gateway services as above delivered through Internet</li></ul>
5. INTRANET Connections to post offices	<ul style="list-style-type: none"><li>• Integrated with and complementary to (but not replacing) existing PO Intranet</li></ul>
6. Customer Loyalty Schemes	<ul style="list-style-type: none"><li>• Software application and scheme management</li></ul>
7. Consultancy Services for exploitation of customer data/information	<ul style="list-style-type: none"><li>• As required</li></ul>
8. Extending PO services to private side of post offices e.g. longer opening hours	<ul style="list-style-type: none"><li>• Solution required</li></ul>