

IUS CONSOLIDATED CONTRACT SCHEDULE

CONSOLIDATED SCHEDULE 10

FINANCIAL MODEL

for Contract Number DCNS/119

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CONSOLIDATED SCHEDULE 10

FINANCIAL MODEL

This Consolidated Schedule provides a consolidated version of Consolidated Schedule 5.4 (*Financial Model*) of the Call-Off Terms and the Customer Authority's special terms relating to the Financial Model to be maintained by the Contractor.

Capitalised terms used but not defined in this Consolidated Schedule are defined in Consolidated Schedule 1 (*Definitions*).

1 INTRODUCTION

- 1.1** This Consolidated Schedule details the requirements for the Financial Model that is to be supplied by the Contractor to enable the Customer Authority to identify how the Contractor calculates the Charges. The Charges shall be calculated in accordance with the provisions stated in Part A of Schedule 5.1 (*Charges and Invoicing*) of the Call-Off Terms and Consolidated Schedule 9 (*Charges and Invoicing*).
- 1.2** In particular, this Consolidated Schedule sets out provisions relating to:
 - 1.2.1** the contents and construction of the Financial Model (see Paragraph 2 below);
 - 1.2.2** the costs that may be included in the Financial Model (see Paragraph 3 below);
 - 1.2.3** visibility of the Charges (see Paragraph 4 below);
 - 1.2.4** custody of the Financial Model (Paragraph 5 below);
 - 1.2.5** updates to the Financial Model (see Paragraph 6 below);
 - 1.2.6** disputes regarding the Financial Model (see Paragraph 7 below);
 - 1.2.7** the delivery of a Contract Annual Account (see Paragraph 8 below);
 - 1.2.8** certification of costs (see Paragraph 9 below);
 - 1.2.9** the Template Financial Model (see Appendix 1 to this Consolidated Schedule); and
 - 1.2.10** the Base Case Financial Model (see Appendix 2 to this Consolidated Schedule).
- 1.3** The Parties shall each retain copies of the Financial Model and the Contractor shall provide the Customer Authority with updates to the Financial Model in accordance with the provisions of this Consolidated Schedule.
- 1.4** The Financial Model shall be used together with the principles set out in Part A of Schedule 5.1 (*Charges and Invoicing*) of the Call-Off Terms and Consolidated Schedule 9 (*Charges and Invoicing*) as a basis for considering any Contract Change to the Charges pursuant to Consolidated Schedule 16 (*Contract Change Procedure*) and for such other purposes as are specifically indicated in this Consolidated Contract.
- 1.5** The Contractor shall not, in the Financial Model or otherwise, cross refer to any financial model (or equivalent) other than the Financial Model, nor make the Customer Authority's understanding of the Financial Model dependent on having visibility of any financial model (or equivalent) other than the Financial Model.
- 1.6** All forecasted volumes in the Financial Model, including in the Base Case Financial Model, shall be derived from the relevant outputs from the process known as the *Capacity*

Management Process as described in the ISS ITIL Processes that form part of the Standards.

2 CONTENT AND CONSTRUCTION OF THE FINANCIAL MODEL

2.1 The Financial Model shall:

- 2.1.1 provide sufficient detail for the Customer Authority to have visibility of the construction of the Charges to be paid in respect of the provision of the Services;
- 2.1.2 be constructed on a monthly basis (or such other basis as the Customer Authority requires), and provide a summary of the same on a Financial Year basis;
- 2.1.3 quote all monetary values in pounds sterling;
- 2.1.4 quote all costs as:
 - (i) exclusive of any VAT; and
 - (ii) net of all discounts and other such mechanisms or incentives from which the Contractor benefits and that could have the effect of reducing the net cost of the supply for the Contractor;
- 2.1.5 provide visibility of all the costs of the Services and their construction throughout the Term, excluding any margins or mark-ups if applied, in accordance with Paragraph 4 below;
- 2.1.6 provide the:
 - (i) Pre-Migration Service Unit Prices;
 - (ii) Post-Migration Service Unit Prices; and
 - (iii) Service Unit Prices for the Extension Period(s) (calculated in accordance with Paragraph 5 (*Discounts and Subsidies*) of Consolidated Schedule 9 (*Charges and Invoicing*)),in each case showing Recurring Charges and Non-Recurring Charges, cross-referenced to the Service Requirements, Contractor Service Descriptions and Service Levels;
- 2.1.7 provide an explanation and supporting details of any refresh policies included for any Assets;
- 2.1.8 provide a depreciation policy applicable to Non-Exclusive Assets (including software and hardware) (which also applies to calculating the Net Book Value for the Assets);
- 2.1.9 identify any mark-ups and margins separately and provide explanations on their calculations;
- 2.1.10 quote all costs, prices and revenues based on current prices;
- 2.1.11 be constructed in a format compatible with *Microsoft Office Excel 2003* or such other format as may be specified by the Customer Authority from time to time;
- 2.1.12 not have any parts which are hidden, protected, locked or made otherwise inaccessible or obscured to review or alteration;

- 2.1.13** be laid out in a clear and logical manner. The overall flow of information in the Financial Model shall flow from inputs, to calculations, to outputs, with the final output being in tables and consistent with the Charges set out in Consolidated Schedule 9 (*Charges and Invoicing*). Any formulae in the Financial Model shall show a clear separation between inputs and calculations. Any column labelling in the Financial Model shall be consistent between worksheets;
- 2.1.14** not contain any macros or add-ins, including in *Microsoft Office Excel 2003* or any equivalent software used;
- 2.1.15** make clearly visible any metrics used in any calculations, so that the Customer Authority can understand how the costs are derived;
- 2.1.16** in accordance with the International Financial Reporting Standards:
- (i) include a cash flow statement that shows the timing and relationship between the planned cash outflows and the Revenue which the Contractor expects to receive in respect of each Financial Year and month;
 - (ii) include a statement of financial position for all Services in aggregate, in respect of each Financial Year; and
 - (iii) include a statement of profit or loss and other comprehensive income showing the Profit made by the Contractor in relation to:
 - (a) each Service; and
 - (b) all Services in aggregate,in respect of each Financial Year;
- 2.1.17** provide an output sheet containing a comparison of the Target Profit Margin against the Actual Profit Margin, and the Excess Profit Share Calculations in accordance with Paragraph 3 (*Excess Profit Share Calculation*) of Consolidated Schedule 12 (*Excess Profit Sharing*);
- 2.1.18** provide an output sheet containing a summary of the expected life of, and costs related to, the Pass Through Assets and Legacy Equipment by Service (where an Asset is shared across Services allocate to the main Service which uses the Asset) and by asset class;
- 2.1.19** include an explanation of any apportionments, recharges and cost allocations, and show the calculations and methodologies used to arrive at such apportionments, recharges and cost allocations;
- 2.1.20** provide visibility of construction of the Charges associated with a PSN Change;
- 2.1.21** include an explanation of any underlying assumptions including but not limited to:
- (i) overtime rates;
 - (ii) standard hours;
 - (iii) accommodation charges; and
 - (iv) discounts applied;
- 2.1.22** where the Contractor is not capable of showing the construction of costs, margins or mark-ups in accordance with the requirements of this Consolidated Schedule:

- (i) the Contractor shall apply an apportionment, recharge or allocation to meet the requirements and identify separately such items as key assumptions (the “**Key Assumptions**”) in the assumptions sheet of the Financial Model. No changes in any such Key Assumptions shall affect the Charges or the pricing shown in the Contractor’s Call-Off Service Catalogue; and
 - (ii) those apportionments, recharges or allocations identified as Key Assumptions within the Base Case Financial Model shall be certified by an Independent Auditor as being:
 - (a) accurate and not misleading in all key respects;
 - (b) being a Fair and Reasonable reflection of the information included within the Contractor’s management and statutory accounts; and
 - (c) in conformity with the requirements of this Consolidated Schedule,
 and such certification shall be provided by the Contractor to the Customer Authority with the Base Case Financial Model. The Contractor shall bear any costs and expenses in connection with the appointment of such Independent Auditor and such certification;
- 2.1.23** clearly show the calculation of any financing charges associated with outstanding balances (between costs incurred and Revenue received over the Term);
- 2.1.24** identify in all cases as separate line items:
- (i) the costs per unit of Pass Through Asset, unless more than one of the Pass Through Assets have the same:
 - (a) make, model and specification; and
 - (b) cost per unit,
 in which case the Contractor may summarise the total cost of such Pass Through Assets as a single line item showing the cost per unit and total number of units of such Pass Through Assets;
 - (ii) all other costs to be incurred, or forecasted as to be incurred, by the Contractor in its provision of the Services which exceed one (1) million pounds sterling in aggregate over the Term, such that the Customer Authority has sufficient detail to have visibility of the construction of such costs; and
 - (iii) the Mobile Service Technology Refresh Fund (to which the Contractor shall not be entitled to apply a margin or mark-up);
- 2.1.25** include a comparison of the performance of the Contractor against the Base Case Financial Model (and the latest Contract Annual Account) with an explanation of any variances under the following headings:
- (i) volume variances (sub-totalled and broken down by Milestones, Service Charges and Pass Through Assets);
 - (ii) Contractor’s Call-Off Service Catalogue variances; and
 - (iii) Revenue variances over the Term (sub-totalled and broken down by Milestones, Service Charges and Pass Through Assets);

2.1.26 include a comparison, with an explanation of any variances, of the Total Asset Expenditure against the Asset Budget for each Financial Year;

2.1.27 include an output sheet showing the actual and forecasted Service Charges broken down by Units of Service Element and their corresponding Service Unit Prices and VAT rate, for:

- (i) the Customer Authority and each Indirect Customer; and
- (ii) each UIN,

in respect of each month and Financial Year. The forecasted Service Charges shall be based on the then most recent forecasts produced in accordance with the Standards, and the output sheet shall indicate the volumes used in the calculation of the Service Charges shown in it;

2.1.28 be at all times in conformity with the International Financial Reporting Standards; and

2.1.29 include a set of administrative sheets to include at least:

- (i) an assumptions sheet that contains all of the financial and operation assumptions used by the Contractor in the Financial Model;
- (ii) a documentation sheet that explains how the Financial Model operates and includes at least:
 - (a) detailed instructions which provide the Customer Authority with an overall understanding of the functionality of the Financial Model;
 - (b) an explanation of the flow of information (such flow of information being at all times consistent with the requirements in Paragraph 2.1.13 above), including explanations of any formulas applied through the Financial Model; and
 - (c) a description of the purpose and operational characteristics of each worksheet;
- (iii) a title sheet that identifies the latest version title, the person responsible for that version and the contact details of that person;
- (iv) a version control sheet that provides visibility of changes from the previous Approved version of the Financial Model together with a summary reconciliation of those changes; and
- (v) an audit sheet that conducts a two-way functionality check of key input data in relation to output data to check that the Financial Model is free from any material error.

2.2 The Contractor shall provide skilled and experienced personnel who have detailed knowledge of the Contractor's capital and operating costs and the assumptions used to develop and modify the Charges set out in Appendix 3 (*Charging Triggers*) to Consolidated Schedule 9 (*Charges and Invoicing*).

3 COSTS TO BE INCLUDED IN THE FINANCIAL MODEL

3.1 The Financial Model shall show the following costs by Service, to the extent that they are directly attributable to the provision of the Services and included in the Charges:

3.1.1 labour costs for delivering the Service Requirements and Contractor Service Descriptions broken down by each job title (for example, project manager) with the number of Contractor Personnel, days and daily rate shown for each job title;

3.1.2 hardware and software costs for any Non-Exclusive Assets used for delivering the Services (but excluding any Regulated Costs);

3.1.3 Sub-contractor costs with any Key Sub-contractor costs broken down by hardware, software, labour, contingency and financing (but excluding any Regulated Costs);

3.1.4 Regulated Costs for delivering the Service Requirements and Contractor Service Descriptions;

3.1.5 any contingencies and risks (and to which the Contractor shall not be entitled to apply a margin or mark-up). The Contractor shall only be entitled to include contingencies or risks as Allowable Costs to the extent that it incurs costs covered by such contingencies or risks. Any contingencies and risks shown in the Financial Model shall be grouped under the following headings:

- (i) strategic and/or commercial;
- (ii) economic, financial and market;
- (iii) legal and regulatory;
- (iv) organisational, management and human factors;
- (v) political;
- (vi) environmental; and
- (vii) technical, operational and infrastructure;

3.1.6 financing costs (if applicable and to which the Contractor shall not be entitled to apply a margin or mark-up) showing the interest rate and calculation and the need to apply financing explained;

3.1.7 Overheads associated with:

- (i) labour and associated information technology costs;
- (ii) accommodation, facilities, office space costs; and
- (iii) human resources, finance, commercial or procurement staff costs (and to which the Contractor shall not be entitled to apply a margin or mark-up);

and provided that the Contractor demonstrates to the satisfaction of the Customer Authority that such costs are directly attributable to the provision of the Services. These costs shall be broken down in accordance with the cost categories set out in this Paragraph 3.1;

3.1.8 the Management Charge;

- 3.1.9 any inflation or deflation projections for forecasted periods, identified separately to the costs in Paragraph 3.1 above. Any actual costs reported in the Financial Model shall not be adjusted for inflation or deflation; and
- 3.1.10 any costs for Pass Through Assets, broken down into asset class and per unit of Pass Through Asset purchased, under the following headings:
- (i) Pass Through Assets, to which the Contractor shall only be entitled to apply the Asset Pass Through Mark-up (but not any other margin or mark-up); and
 - (ii) contingencies that are directly attributed to the Pass Through Assets (and to which the Contractor shall not be entitled to apply a margin or mark-up). The Contractor shall only be entitled to include contingencies as Allowable Costs to the extent that it incurs costs covered by such contingencies.
- 3.2 All costs described in Paragraph 3.1 above, with the exception of any mark-ups or margins shown in accordance with Paragraph 2.1.9 above shall be the “**Allowable Costs**”.
- 3.3 The costs described in Paragraphs 3.1 above shall be broken down and sub-totalled by:
- 3.3.1 Transition and Migration and any other major phases in the provision of the Services under this Consolidated Contract, as defined by the Customer Authority from time to time; and
 - 3.3.2 fixed costs and variable costs.
- 3.4 Unless otherwise agreed with the Customer Authority in writing (such form of writing to refer to this Paragraph 3.4), the Contractor shall ensure that none of the following costs shall be factored into or counted as part of the costs set out in the Financial Model (the “**Excluded Costs**”):
- 3.4.1 any profits or losses on the transfer cost of goods or services supplied by members of the Contractor’s Group;
 - 3.4.2 any profits or losses on transfer pricing exchanges incurred by members of the Contractor’s Group;
 - 3.4.3 any overheads incurred by members of the Contractor’s Group, with the exception of any Overheads in accordance with Paragraph 3.1.7 above;
 - 3.4.4 any costs associated with the purchase, licensing or registration of trade marks;
 - 3.4.5 any costs associated with sales or marketing;
 - 3.4.6 any costs associated with parent company guarantees;
 - 3.4.7 any costs incurred, recognised, recorded or accrued prior to the Contract Date;
 - 3.4.8 any provisions for the writing off of bad debts or goodwill;
 - 3.4.9 Service Credits or any other damages payable under this Consolidated Contract;
 - 3.4.10 any accountancy, legal or other expenses relating to any acquisitions (including the acquisition of other corporate entities or businesses);
 - 3.4.11 any payments or reserves for taxes on profits;
 - 3.4.12 any distributions or allocations of profit, such as dividends;

- 3.4.13 any costs relating to the servicing of capital or capital reorganisation;
- 3.4.14 any share and debenture issue expenses, including any discounts;
- 3.4.15 any costs for gifts to employees;
- 3.4.16 any lump sum payments to employee pension schemes;
- 3.4.17 any bonuses for employees;
- 3.4.18 any profit sharing schemes for employees;
- 3.4.19 any subscriptions or donations of a political nature or which are otherwise not deductible against profits for tax purposes;
- 3.4.20 any losses from other contracts; and
- 3.4.21 any other costs not described in Paragraph 3.1 above.

4 VISIBILITY THROUGH THE FINANCIAL MODEL

- 4.1 Upon request of the Customer Authority, the Contractor shall promptly provide to the Customer Authority details of the elements used to make up any Charges.
- 4.2 The Contractor shall provide to the Customer Authority the following (as required by the Customer Authority) information in relation to the Charges:
 - 4.2.1 the Contractor's total Charges for the Services, Milestone Payments and/or Deliverables, broken down for the Customer Authority and each Indirect Customer by volume and unit cost;
 - 4.2.2 any margins or mark-ups (if applicable) included in that total Charge;
 - 4.2.3 the actual Charges profile for each month and a summary of the same for each Financial Year;
 - 4.2.4 a summary of the construction of each Service Charge and/or Milestone Payment;
 - 4.2.5 in relation to any Milestone Payment:
 - (i) details of any manpower costs included in the relevant Milestone Payment(s), for all project activities to be undertaken;
 - (ii) a resource estimating model to support the relevant Milestone Payment(s) and Deliverables;
 - (iii) a monthly and cumulative estimation of the percentage of progress made against the completion of such Milestone; and
 - (iv) a breakdown of manpower resources by the number and type of Contractor Personnel required for each Milestone, Test, Deliverable and/or Service and free of any contingency or risk. This shall also apply to third party costs;
 - 4.2.6 an explanation of the type and value of contingency or risk associated with the provision of the Services, including the amount of money attributable to each contingency or risk;
 - 4.2.7 an explanation and supporting details of any applicable financing costs;

- 4.2.8 any additional activities, costs and risks that may impact the Customer Authority and which are not already covered by the Charges; and
- 4.2.9 any additional information as the Customer Authority reasonably requires.

5 CUSTODY OF THE FINANCIAL MODEL

- 5.1 Immediately after the Contract Date and following agreement by both Parties of the changes to the Financial Model under Paragraph 6 below, the Contractor shall deliver a soft copy of the Financial Model to the Customer Authority (including on a CD-ROM where so required by the Customer Authority), and where requested by the Customer Authority up to two (2) hard copies.
- 5.2 The Contractor shall retain copies of the Financial Model in soft copy during the Term and in accordance with Consolidated Schedule 29 (*Records Provisions*).
- 5.3 The Contractor shall also provide a soft and/or hard copy of the Financial Model (together with any Updated Financial Models) to the Framework Authority if requested by the Framework Authority.

6 UPDATES TO THE FINANCIAL MODEL

- 6.1 Unless otherwise agreed in writing between the Parties (such form of writing to refer to this Paragraph 6.1), any updates to the Financial Model shall reflect, be consistent with and be made only in accordance with the provisions of this Consolidated Contract and shall in all cases be subject to the Approval of the Customer Authority (such Approval not to be unreasonably withheld or delayed).
- 6.2 All changes to the Financial Model shall be auditable, implemented and documented under formal version control.
- 6.3 The Contractor shall update the Financial Model with respect to each calendar month in the Term, within five (5) Working Days of the last day of such calendar month, and deliver the Financial Model to the Customer Authority for Approval.
- 6.4 Each update to the Financial Model made pursuant to Paragraph 6.3 above shall reflect any inputs, modifications or other amendments to the Financial Model which are effected pursuant to this Consolidated Contract, including any amendments made to the Financial Model which arise from:
 - 6.4.1 the implementation of a Contract Change which affects the Charges (including a PSN Change); and
 - 6.4.2 any changes to the Contractor's accounting practices.
- 6.5 Each Financial Model shall be constructed using the same methodology as that used for the then current Financial Model and shall be consistent with and made in accordance with the provisions of this Consolidated Contract.
- 6.6 The Contractor shall adhere to and apply the following principles when preparing an Updated Financial Model:
 - 6.6.1 any amendment which is made in order to evaluate the impact of any inputs, modification or other adjustment shall relate only to such inputs, modification or other adjustment; and

6.6.2 no amendment shall affect, in any way whatsoever, the performance of the Services, save as agreed in accordance with Consolidated Schedule 16 (*Contract Change Procedure*).

6.7 On the occurrence of any event which requires the Financial Model to be updated, the Contractor shall effect the change on the latest version of the Financial Model. The Contractor shall ensure that each update of the Financial Model delivered to the Customer Authority shall be certified by an appropriate senior financial officer of the Contractor as being accurate and not misleading and in conformity with the International Financial Reporting Standards.

6.8 If the Customer Authority wishes to dispute the Financial Model in accordance with Paragraph 7 below, the Customer Authority may notify the Contractor in writing (such form of writing to refer to this Paragraph 6.8) within five (5) Working Days (or such other period as the Customer Authority advises the Contractor in writing) of receipt of the Financial Model.

6.9 If the Customer Authority does not provide written notification in accordance with Paragraph 6.8 above, the Financial Model shall become the Updated Financial Model for the purposes of this Consolidated Contract.

7 DISPUTE

7.1 If the Customer Authority disputes any Financial Model, it may request such further information from the Contractor as it requires prior to delivering a decision on whether it shall accept or reject the relevant Financial Model.

7.2 In the event that the Customer Authority and the Contractor are unable to reach agreement on any Financial Model, the matter shall be referred for determination in accordance with the Dispute Resolution Procedure.

8 CONTRACT ANNUAL ACCOUNT

8.1 For each Financial Year (or in the case of the year in which the Contract Date falls, part thereof) until one (1) year after the termination or expiry of this Consolidated Contract, the Contractor shall, within seven (7) weeks from 1st April, deliver to the Customer Authority a copy of the Financial Model certified by a director of the Contractor and by an External Auditor as being:

8.1.1 Fair and Reasonable (including in relation to the Contractor's forecasted costs and Actual Profit Margin for the Term);

8.1.2 constructed in accordance with this Consolidated Schedule and this Consolidated Contract; and

8.1.3 in relation to the apportionments, recharges or allocations identified as Key Assumptions and applied in such copy of the Financial Model required to be delivered by the Contractor in Paragraph 8.1 above, consistent with those applied in the Base Case Financial Model,

(the "**Contract Annual Account**").

8.2 Any External Auditor appointed in connection with this Consolidated Contract shall be appointed on the basis of the following:

- 8.2.1** the External Auditor shall be appointed by the Contractor, but subject always to provisions of this Paragraph 8.2;
- 8.2.2** the Contractor shall bear the costs and expenses of the External Auditor; and
- 8.2.3** the appointment of the External Auditor shall be subject to the Customer Authority's prior Approval of:
 - (i) the choice of External Auditor;
 - (ii) the terms and scope of the External Auditor's engagement; and
 - (iii) the required form and content of any report to be provided by the External Auditor in accordance with its terms of engagement.

8.3 The Contract Annual Account shall be accompanied by:

- 8.3.1** a reconciliation between the Contract Annual Account and the Financial Model; and
- 8.3.2** a comparison of any cost variances against the Base Case Financial Model and (if requested by the Customer Authority) the previous Contract Annual Account. Any costs variances of ten (10) per cent or greater by Service shall be explained by the Contractor in such comparison.

9 CERTIFICATION OF COSTS

- 9.1** The Contractor shall at the request of the Customer Authority (such additional requests not to exceed five (5) occasions over the Term), provide to the Customer Authority a certificate of any of the costs shown in the Financial Model within fifteen (15) Working Days (or such other period as required by the Customer Authority) of such request. The certificate of costs must be signed by an appropriate senior financial officer of the Contractor.
- 9.2** Following receipt of the certificate of costs, the Contractor shall provide to the Customer Authority any reasonable additional information to enable the Customer Authority to verify the accuracy of the certificate of costs.
- 9.3** Unless otherwise indicated by the Customer Authority, the Contractor shall meet with the Customer Authority at monthly intervals during the Term to monitor the Financial Model and the Asset Register, and the Contractor shall highlight directly to the Customer Authority any variances from the Financial Model, including:
 - 9.3.1** any variances from the Financial Model, as referenced in Paragraph 2.1.25 above;
 - 9.3.2** any variances between the Asset Register and Financial Model; and
 - 9.3.3** any further explanation, as requested by the Customer Authority, on the construction of any cost within the Financial Model.
- 9.4** If an audit or other examination carried out by the Customer Authority in accordance with this Consolidated Contract shows that the Contractor has misrepresented any costs in the Contract Annual Account or the Financial Model, then the Contractor shall promptly reimburse the Customer Authority for all costs and expenses incurred in connection with such audits.

APPENDIX 1

TEMPLATE FINANCIAL MODEL

See document entitled “20141024-IUS_Bidder_Template-V2-MODEL3-OS_BT Final v8.1” available on a CD-ROM that has been signed by both parties and dated the same date as the Consolidated Contract.

APPENDIX 2

BASE CASE FINANCIAL MODEL

See documents entitled “2 IUS Part C – Base Case Finance Model”, “2 IUS Part C – CFM consolidator v11 Template”, “2 IUS Part C – CFM Model Milestones v13 Template” and “ 2 IUS Part C – CFM Model v32 Template” available on a CD-ROM that has been signed by both parties and dated the same date as the Consolidated Contract.