

POL00038841

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URGENT - IN COMMERCIAL CONFIDENCE

Post Office Counters Ltd

Development Director

Without Prejudice

To: George McCorkell
Sarah Graham
Copy: Graham Corbett
Ross Newby
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Jeff Triggs

13 October 1998
1013a

Dear George

HORIZON: GRAHAM CORBETT PROPOSALS OF 12 OCTOBER 1998

In view of the urgency, I thought it best to set down our reaction to Graham's proposals, received yesterday. Stuart and I did meet Graham and Ross last night to talk these through, and we aim to speak to KPMG for modelling purposes today.

In coming to a view, we have also taken into account the wider issues concerned with the project going forward - most immediately, those around ICL Pathway's funding and the prospect of lengthy and potentially costly litigation. In the longer term, there are real policy issues at stake too: for example, welfare reform, social inclusion, post office review and network, and Governments PFI/partnership ambitions. I'm sure Sarah will be acting as 'guardian', from a DSS/Government perspective, of the latter, and hence my writing to her too. With this as background, and bearing in mind the Prime Minister's announcement of the Citizen's Account last week, it would also be

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13 October 1998

very helpful if, as part of the agreement, DSS could agree not to 'veto' the use of the benefits application on multi-functional cards (given proper security and programme arrangement of course) if, for example, we were to approach ICL in bringing smartcards forward as part of the overall transition plan.

I set out our reaction at the attached Annex, using Graham's numbers. Please bear in mind, when considering this, the wider issues we are facing with ICL that Graham refers to in passing. Also, that our modelling shows that for every £1 'gained' from any extension by BA we have given back ICL Pathway well over £2 to date! In summary, we think there may be the bones of a deal here - but whether it will be acceptable to ICL is up to them of course!

No doubt we will discuss later today.

Regards

GRO

PAUL RICH

IN COMMERCIAL CONFIDENCE
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Annex

POCL REACTION TO GRAHAM CORBETT PROPOSALS OF 12 OCTOBER 1998

Note: these statements are subject to contract, and to clarifying any other associated legal issues, and to any final quality assurance in our financial modelling.

G Corbett
Reference

POCL Reaction

- a) 1.1 Agreed, assuming this means ACT completes in March 2008, and the Contract 'A' floor to POCL extends until then.
- To help 'compensate', POCL will pay BA their incremental BES charges to ICL for the extended period. We calculate this as worth c£40 million to BA.
- b) 1.2 We agree the principle - but we would prefer to raise our business guarantee levels on all non-BA business to ICL Pathway from 65% to 75% instead though throughout the extended contract. We believe this should be more helpful to ICL.
- c) 1.3 Agreed, subject to POCL owning/controlling the new assets, and that the existing assets have a nil transfer value.
- d) 2.1 Agreed, as part of this total package. Also, price discounts start one year later than current contract, as BA and POCL agreed provisionally last week (but have yet to advise ICL Pathway).
- e) 2.2 (We hope BA will be able to follow suit, per 1.2 above.)
- f) 3 Agreed.
- g) 5 Agreed, subject to this being restricted to waiving rights of termination for acceptance only (ie not waiving those for disastrous operation).
- h) 6.1 Agreed, if this is sufficient. We would want assurance that ICL/ICL Pathway has sufficient funds to continue properly (see also Graham Corbett's opening remarks in covering letter regarding parallel activity).
- i) 6.2 Agreed - I would hope Hamish would be able to complete this in a helpful way to ICL Pathway soon.
- j) 7 Agreed.
- k) 8 Agreed (this would be helpful to both of us given previous talks).
- l) 9 Agreed, subject to final legal checks on wording.
- m) 10 Agreed, provided that this does not involve use of any other auditors than the Post Office's appointed auditors, and that the scope and process of what is being monitored is agreed between all parties.

GRO

13/10/98