FUJ00115991
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Large Projects Division – ISC paper

1. Libra

The plan to deal with Libra, as discussed at the most recent ISC meeting in Tokyo, is progressing well so far. Specifically our work with the customer to change the contractual and working arrangements is proceeding in earnest. The client is taking seriously our target of the end of September for a signed MOU covering the principal issues including price. This will be followed by detailed negotiations intended to produce a revised contract by the end of ICL's financial year.

There are six headings by which to assess progress during September:

- Essential changes to joint top level governance and the client's delegation of authority;
- Establishing a firm requirements baseline with non-essentials taken out;
- Agreeing a plan timetable as revised contract baseline;
- Due Diligence on the numbers and additional moneys required;
- Revised charging methods and resolution of other serious risk issues;
- Interim arrangements including shared funding, and walk away terms.

So far I am pleased that our Libra team is addressing the issues with urgency and the customer is positive. The assumptions made in putting our plan together remain valid albeit challenging. The logistics of achieving a binding MOU by end September and the shear amount of new money required from HMG necessarily make the outcome uncertain.

I believe we will be able to re-assess the relative impacts of continuing with our plan or otherwise within the required timeframe.

2. HMCE

I am in the process of conducting a detailed review of this programme in conjunction with our team, taking a similar approach to that used for Libra. The Business Support team is providing excellent help with the programmatic elements.

The HMCE deal is a large programme involving the management of a legacy infrastructure for 24,000 users and the roll-out of significant upgrades to that infrastructure. The contract term is ten years.

Unlike Libra there is no large scale software development involved in this programme. However historically there have been problems due to integration work and roll-outs taking longer and costing more than originally planned. This in turn has been caused by a combination of customer issues, technical problems and some poor management in the past.

A relatively new team has been in place for some months under the leadership of Ray Clarke. My assessment so far is that since being in place this team has been working on a sensible plan to ensure that HMCE at least returns a profit over its life and as far as possible returns to the levels of profit signed off at the original BAFO.

I must express caution because I am part way through my assessment but their plan does appear believable and indeed contains some similar pragmatic actions to the Libra plan, including:

- cost down on items under ICL's control;
- producing a better working environment with the customer;

FUJ00115991

- new business

The fact that some new business with very good margin has already been contracted (e.g. Electronic Folders) is a very positive indication.

My analysis is continuing, along with further activity I have asked the team to undertake to firm up their plan. It is important that we complete this review properly and that Peter Earl reviews the project from his perspective before we report formally. I believe we will be in a position to do so in September.

3. Pathway

Since the DSS dropped out and the contract was revised in mid-1999, Pathway has met all key milestones and exceeded all financial targets. Roll out has been completed early and both retention triggers met on time. Service level performance is good and customer satisfaction high. The programme has begun to forecast better than plan revenues and profits over the current term of the project. By March 2005, all of the write off and provision taken in 1999 should have been recovered having taken account of interest.

Senior Consignia representatives visited Fujitsu last week in Tokyo to begin the process of engagement towards extension of contract beyond March 2005. The visit identified areas of interest where Fujitsu has value to add and cemented ICL/Fujitsu as a strategic supplier to Consignia. It also set the scene for work to start next month on discussing terms for extension. An additional five year term should be worth in the order of another £500m revenue and £75m PBT.

Having completed roll out successfully, the focus is now on new business. Network Banking and GGP are the current priorities but there are a number of other initiatives in play such as EFTPOS, more smart card based Automated Payments and Project ERA (next generation automation based on re-engineered processes).

We appear to have now a well-managed contract and customer situation, with our major problems behind us and good opportunities to develop the business further.

I have not examined the Home Office deal but will do so during September - again I do not expect to uncover major issues.

4. DTI

The DTI deal is an infrastructure management deal with no major development risk, good service level performance and quite high customer satisfaction.

Since taking the initial contract in 1998, the value of contracted revenues has been increased progressively by change control from below £100m to over £500m. The addition of the "Matrix" service in March this year also triggered an extension of term, the combined value of which was some £250m.

From a starting position of being a "loss leader", the contract appears now to be healthily in the black although I have yet to properly review it.

We are attempting to persuade the DTI to adopt Flexible Finance as a means to remove joint funding constraints on new services. If successful, the DTI will then be used as a reference for the other PFIs. This will potentially mitigate ICL's PFI funding requirements very considerably.

5. Home Office

FUJ00115991

The Home Office contract is the most recent of the PFIs and is another infrastructure outsourcing contract. The existing service and assets transferred to ICL in February this year. The inherent profitability appears to be healthier than HMCE or DTI but there are some contractual issues related to service performance. The service credits regime is onerous and costly and is being addressed as part of a package of changes to the initial contract.

The value of contracted revenues is likely to increase from £300m to well over £400m during the course of this financial year as a result of due diligence on the scale of the transferred service and the addition of new business such as CCFP and HR systems. The additional business should generate over 15% margin after contingency and interest. It is intended to deal with the service credits issue as part of "CCN1" – the correction of the service baseline provided to us by the customer.

A financial analysis of all these deals is being conducted under Peter Earl's oversight and will be complete in September. Once we have finalised this work then, together with my analysis, we will be able to form a management view of all the large projects.