

**ICL Pathway input to David Courtley's Quarterly Board report on LPD to Fujitsu****1. Current performance on existing contract**

Current performance continues to be good and is in line with full year forecast and project life business plan. Rollout is now contractually complete. Service performance meets or exceeds contractual SLAs.

**2. Current status of Network Banking with some indicative quantification of the possible range of outcomes**

The priced proposal for NWB was submitted on 16 November 2001, followed by a presentation to POL. Initial reaction was that the price was too high and there was insufficient commitment to timescales and that terms and conditions were unacceptable. Presentations, meeting and discussions have since taken place and Post Office have now shared their business case for the Pathway element with us; POL business case is for a seven-year period to 31 March 2007.

A revision to the proposal was presented as BAFO on 21 December. The main change was to discount the price of ongoing services in years 2005/6 and 2006/7 (outside the term of the current Codified Agreement) on the basis that ICLP would then be in a position to reduce the operating costs of what would then be a stable system. In spite of earlier indications to the contrary, POL maintained that this was inadequate to bridge the overall and medium term gap in their business case. ICLP were invited to further consider reducing service levels in order to bring the operating costs down and also to re-phase some of the discount already offered by bringing it forward into earlier years.

ICLP re-presented to PO on 7 January variations to BAFO which removed a level of service and offered some 'optional' elements of service that if omitted would deliver further price reductions. In return ICLP requires an abatement of SLA targets and liabilities for existing services that would be adversely affected by reduced service for NWB. ICLP was also able to re-phase some of the discounts to help balance POL's medium term problem. This latest revision was received very positively by POL and they have indicated that they will respond more fully on 9 January having assessed its impact on their overall Network Banking business model. Agreement is not likely to be reached before 18 January and, thereafter, significant work remains to be done before contract signature.

The discrete P&L for the latest proposal shows revenue at £90.9M at a margin of 22.7%.

**3. Current view when contract renewal is likely to start.**

During the Network Banking negotiations Alan Barrie (Executive Director, Change & IS) asserted that the structure and nature of the current Codified Agreement mitigates against ICL and POL working harmoniously together. Rather than just an extension to the existing contract, Alan Barrie seeks to achieve a different style of contract that encourages the best behaviours from both organisations. Furthermore he has written:

"... that both parties must set about the tasks of re-examining the foundation of our commercial, personal and technical relationships. This must be a radical approach and to that end, would like to set up an initial exploratory meeting during the week commencing 21 January 2001"

We are now reviewing the internal progress on preparing for contract extension made to-date and planning for the discussions with POL during week commencing 21 January.