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COMPANY SECRET
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FUJITSU SERVICES MANAGEMENT COMMITTEE

MAY 2005

MAJOR ACCOUNTS REPORT

MoD DII(F)

The signing of the DII(F) sub contract between Fujitsu and EDS on the 21st March 2005 together with the contracts between EDS and other DII(F) sub contractors paved the way for EDS to sign its prime contract with the MoD for increment 1 of DII(F).

The signing of these agreements was the culmination of more than two years of work by the Atlas Consortium bid team staffed principally by Fujitsu and EDS. Fujitsu's sub contract for increment 1 has a duration of 10 years and is valued at £527M.

The implementation teams of all of the consortium members are currently in start up mode where they must demonstrate their ability to work as one virtual team and meet the challenge of the initial Atlas deliverables to the MoD.

The first DII(F) workstation is planned to go live in January 2006 and work has already commenced to achieve this. An early milestone for Fujitsu is to effect within three months of the contract signature date, the novation of the existing CHOtS and NavyStar contracts to EDS. This has always been a key MoD requirement which will present some interesting challenges at the working level.

NHS

Fujitsu and the customer have been working on the Common Working Arrangements (CWA) with the aim of resolving the issues associated with the current delivery model (now known as Plan A – the IDX-Carecast solution). The participation in the CWA process also provided a means of identifying and resolving outstanding issues related to legacy systems within the Southern Cluster.

It became apparent during the CWA Plan A review that the delivery of all phases of the solution were running seriously late. In addition there was decreasing confidence that the revised schedules being proposed by BT and IDX could be met.

As a contingency, therefore, discussions have been undertaken with a new supplier (Cerner) to counter the increased concerns with the viability of the Common Solution. These discussions are now at an advanced stage and detailed technical discussions and contract negotiations are currently underway with this alternate supplier. The aim of the contingency plan, called Plan B, is to:

- Improve content and timing of all phases of the CRS solution
- Provide more confidence in delivery commitments to the NHS
- Resolve outstanding legacy issues from the original contract
- Avoid litigation with the NHS and current Fujitsu Services subcontractors

The outcome of these contract negotiations, if successful, will be a more robust business plan.

As an important part of the due diligence on the contingency plan, a visit to Cerner's corporate offices in the United States took place in April. The FS NHS team is grateful to the Fujitsu

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Business Support Team and Health Business for their support and assistance in this key visit (Mr. Yuichirou Ishii, Mr. Narutaka Nakao, Mr. Hisayuki Sano, Mr. Tsuyoshi Yamaguchi).

A draft Detailed Implementation Plan (DIP) has been developed based upon the current IDX Carecast solution delivery plan. This was delivered to the Southern Cluster NPfIT prior to March 31 as was committed under the Heads of Agreement. Regardless of whether we choose to proceed with a contingency plan, this DIP is the culmination of substantial Trust assessments, and negotiations with Strategic Health Authority Chief Information Officers, and will be a valuable basis upon which to build future detailed deployment plans. The Plan B DIP shows implementations of core functionality in 6 trusts this financial year.

The current plan is for a Memorandum of Understanding (MoU) for Plan B to be signed by 20th May and a full CCN to follow by the end of July. The contents of the MoU are currently being negotiated and are intended to create a firm baseline which will immediately be managed under change control

The PACS Data Centre has been implemented and the first Trust was fully operational on April 13th. Both were absolutely on schedule. The PACS DIP calls for the implementation of approximately 8 additional Trusts over the balance of the calendar year. The average value of each of these deployments is £3 million.

Inland Revenue

The operational service continues to be successful with service levels maintained / improved on those previously being delivered prior to transfer. We have had some operational issues whereby the processes we have inherited are not ideal for achieving impeccable service; these areas are being investigated as we identify them. There have been a number of politically sensitive projects successfully deployed onto the estate over recent weeks.

We have achieved an incremental TCV of £311m for this year. The volume of Change Requests has reduced as the previous backlog is cleared.

The relationship with Capgemini has significantly improved during the reporting period and we have worked really well together on the HMRC integration activities. The agreed new workshare principles are now being adopted for all new HMRC services.

A revised Data Centre Strategy has been issues to IR to cover the merger of the two departments and to overcome the shortcomings of the IR data centre estate. It is anticipated that the revised strategy will be adopted and contracted as part of the merger of the HMCE and ASPIRE contracts.

We have completed negotiations for Fujitsu to establish a new Print Centre in Warrington to take over production of NTC Flatpack & Giro from EDS. The P2 colour printing programme remains on hold by Inland Revenue due to a shortage of funds. We are still monitoring the DWP input/output opportunity which has been recently been reissued by DWP.

Post Office

Financials

Full year figures for 2004/05 were Revenues of £132.3 million and Operating profit of £50.5 million. These figures are ahead of budget and also represent some £30 million additional business from Post Office.

Recent Major Releases

Following the issues with the operational service in December, we have implemented a service transformation programme with Post Office. This is a three stage programme, the first of which is complete and Post Office have expressed their satisfaction with progress so far.

Current service is good and we remain confident that the right steps are being taken to ensure continued service quality.

Work in Progress

Time and materials development programmes continue:

1. IMPACT: S80 - the introduction of revised accounting systems for post offices and the hosting of the SAP system to support it. Implementation has been delayed some 8 – 10 weeks due to Xansa delivery of SAP software. (Xansa are part of the Prism consortium who are the Royal Mail Group outsource company).

2. S90 now aimed at January 2006 is firmed up with the following:

- Credit/Debit Card acceptance for Bureau transactions
- Postal Order automation
- AP outpayments
- Several S80 overspill changes

Horizon Next Generation (HNG)

We are continuing to make good progress. Post Office are insisting on a due diligence exercise aimed at ensuring that they have undertaken the correct process, that the architecture is right for their business requirements, and that the plans are robust and achievable. We expect to start the due diligence exercise at the beginning of May.

We submitted a revised proposal and pricing on 15th April. This included a compliance matrix against the Post Office requirements, a programme plan and a clear set of assumptions.

Post Office have signalled a gap between our proposal and their business case. We have now agreed a set of joint activities and negotiations to look at how we can close the gap through changes to requirements and other cost savings. We expect these negotiations to take most of May and June to complete.

HMCE

The HMCE Account has exceeded all business targets for last financial year and HMCE have continued to be a reference customer for a number of Fujitsu Services opportunities.

The activities to upgrade the whole network completed phase one in January 2005, in accordance with the plan. We are now rolling out the network across the whole estate. We have continued to delay the XP roll out at the request of HMCE, but have now started re planning with an expect start date of June 2005 with, initially, an NT build on the desktop.

We completed a pilot of the confidential roll out during the period. We initially experienced a number of difficulties around the integration of the encryption equipment and Citirx, but these have now been overcome and the full roll out commenced.

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HMCE are due to issue their strategic requirements as a result of the merger of Inland Revenue and HMCE this month. We continue to experience some delay in making major decisions whilst the two Departments decide on their organisation and approach to IT. One example of this is the move of the HMCE servers and mainframes from HMCE owned data centres to a Fujitsu data centre

The financial benchmarking has made further progress and the draft report is due to be available later this month.

HMCE continue to review their preferred way forward for IT services provision following Government agreement to bring together the Inland Revenue and HMCE into HM Revenue and Customs. They have decided to progress merging the HMCE contract with the Aspire contract and we have agreed an MOU to cover this approach. We have been working with Capgemini to agree a revised workshare within the extended ASPIRE contract.

We are bidding with IBM for the Lorry Road User Charge (LRUC) opportunity and have been short listed in all three lots. A further down select is schedule for later this year with contract award in December 2005. We have been conducting a proof of solution as part of the bid process and the first review by HMCE was very successful.

Libra

Department of Work and Pensions Minister Chris Pond visited Carlisle recently and was very impressed by the disaster recovery actions that had been taken and commended everyone involved.

The Customer Score Card results have remained at their highest ever level of 9.0 for the past Quarter with 100% of our customers reporting as 'Very Satisfied'.

Project revenue for the year to March 05 amounted to £48.8m, this was in line with the Q4 budget and slightly above base target of £48m. Project margin reported for the year was £15.4m, an improvement of £1.7m on budget and £0.4m above stretch target. This was due to a combination of productivity savings, a higher proportion of additional services work attracting a higher margin % and an interim lifetime review in February 05 identifying additional profit. TCV for the year was £13.3m against a forecast of £13.5m and a base target of £10m. Cash continued to be a challenge due to the Technology refresh project occurring a year earlier than originally planned at the time targets were set. Cash at the year end settled at £8.1m against a base target of £13.5m, however, the Technology Refresh project cost in excess of £10m therefore the results actually show an improvement of circa £4.5m over base target.

Work with Accenture on the Extension of the Help Desk Incident Management Service continues to proceed well thanks to our lead. We are now ready to accept calls and working on scenario testing.

The Joint Operational Change Advisory Board with DCA, Accenture and STL is set up and we are providing a change diary of currently planned changes. Tests have been completed for standard, emergency, retrospective and 3rd party supplier changes. The OCAB is now meeting weekly and a review is planned in May to see if any streamlining of processes is required.

The Desktop refresh using Windows XP and Office 2003 continues with customers reported as delighted. Many have written letters of thanks. As at the 8th April 2005 we have rolled out over 10,350 PCs & Laptops and are on target to finish on time by June 2005. 352 of the 404 new print servers have been deployed and we are again on schedule. 396 Packeteer boxes have been deployed to site.

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Data centre migration from Fel01 to SDC01 was completed in December. The data centre server refresh project is underway and the equipment has been installed. Migration to the SAN (Storage Area Network) facility providing enhanced resilient storage is underway with respect to MS exchange services and is scheduled to complete by August 05.

Phase 1 of the DCA's new application has now moved into User Acceptance Testing and planning for the Live Trial Release in Kingston is ongoing and targeted for July, all 42 areas have been consulted on the deployment sequence which follows successful trial and the decision on dates will be made at the Project Board on the 27th April.

The first part of the Unified Administration domain changes were successfully completed on schedule. The next stage is to get financial reporting cascaded through the system to the relevant users.

We are ensuring that for the Live Trial Release the infrastructure is capable of taking the application and we are continuing to work closely with Accenture and STL as per the customer priority requirements.

Home Office

The Home Office Account met its revenue, TCV, CSIP and profit targets for the year. This excellent result was the direct consequence of hard work by the business development, delivery, finance and commercial teams.

A key part of meeting the year's targets was the signing of the contract for the technology refresh of the Warnings Index system for the Immigration and Nationality Directorate. In addition a number of long standing commercial disputes and project retentions were resolved to the satisfaction of both the Home Office and Fujitsu.

The Technology Refresh programme continues to progress well. The Head of IT in the IND was most complementary about our approach and plans for the work and has continued to express satisfaction with the progress; avoidance of any disruption to the IND operations is critical.

The move into the 2 Marsham Street building is now essentially complete and we are putting in place a new Service Delivery Management team to ensure that the best use is made of the IT services available within the building. The team responsible for the IT moves has received many favourable comments over the course of the project.

While progress in general has been very positive, the Correspondence Tracking System (CTS) has been on alert for some months, as a result of reliability problems caused by a series of faults in software packages. We have worked closely with the vendors (Metastorm and Meridio) and with Microsoft to correct these faults. Performance is steadily improving and is now close to acceptable levels.

The Home Office has challenged us to engage with them on a discussion of our services and pricing with the goal of ensuring that all our services are aligned with business needs. We intend to use this as an opportunity to position ourselves strongly against ATOS Origin in the IND. A team is now in place building options to present to the Home Office.

The emphasis now within the account is on both winning new business and delivering the programme of reform that will ensure a significant improvement in profit by the end of the next financial year.

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DTI Elgar

The DTI successfully met its year-end profit and revenue targets despite considerable pressure on IT spending resulting from the department's efficiency measures and associated headcount reductions (400 staff left in March 2005).

A number of key project milestones were achieved within the month which was critical to the revenue achieved, not least of these was the formal acceptance by DTI of the highly complex and visible Joint Infrastructure project.

The reform plan to reduce the cost base and improve the profitability of the account remains on target with substantial savings implemented in line with year-end targets. Synergy across the DTI, Home Office and DWP accounts is progressing to further reduce costs and share best practice.

A critical project for the department is to move departmental staff into 1 Victoria Street. This continues to progress well with a number of particularly critical functions being smoothly transitioned this month.

David Courtley
May 2005