

PATHWAY GROUP LIMITED
MEETING OF THE BOARD OF DIRECTORS
TO BE HELD ON THURSDAY 25TH APRIL 1996
AT

ICL, FOREST ROAD, FELTHAM, MIDDLESEX, TW13 7EJ

AT 8.30 A.M.

A G E N D A



- | | | | |
|-------|-----|---|-----------------------------|
| c 27. | 1. | Minutes of Meeting 15 March 1996
(Previously circulated) | |
| 46/28 | 2. | Matters Arising | |
| 29 | 3. | Transfer of Shares | Secretary |
| | 4. | Draft Statutory Accounts
(To follow) <i>attached</i> | A E Oppenheim/
Secretary |
| 30 | 5. | Managing Director's Report
(Attached) | J H Bennett |
| 3 | 6. | Financial Director's Report
(To follow) | A E Oppenheim |
| 31 | 7. | Sales Update | J A Jones |
| | 8. | Programme Plans | T P Austin |
| | 9. | Any Other Business | |
| | 10. | Date of Next Meeting:
Wednesday, 22nd May 1996 | |

STATUTORY ACCOUNTS

The draft Statutory Report and Accounts for the period from incorporation of the Company (19/1/95) to 31/12/95 are attached.

These need not be filed with the Registrar of Companies until 31 October, but it is possible that the potential customer may wish to see a set of accounts (even though the company does not trade and there are no entries in the books beyond £100 in issued share capital). Consequently the Board are asked to approve these (delegating any one Director the power to make any necessary changes eg arising from the auditors) then authorise any one Director to sign the accounts, and the Secretary to sign the Directors' Report and convene the Annual General Meeting once the auditors have signed the accounts.

Pathway Group Limited (formerly Maidhaven Limited)

Directors' Report and Accounts

Period ended 31 December 1995

Registered No. 03011561

Status: Draft 15 April 1996 - Including RF Scott data

Pathway Group Limited (formerly Maidhaven Limited)

Directors' Report for the period ended 31 December 1995

The directors present their report together with the audited financial statements of the company for the period ended 31 December 1995.

Principal Activities

The company was incorporated on 19 January 1995 as Maidhaven Limited and its name was changed to Pathway Group Limited on 6 April 1995. It has not yet commenced trading.

The two subscriber shares were transferred to International Computers Limited (ICL) on 12 April 1995. On 15 June 1995 47 new shares were issued to ICL, 36 new shares to Girobank Plc and 15 new shares to De La Rue plc.

The company has been established to seek a contract with Post Office Counters Limited and the Benefits Agency of the Department of Social Security to bring automation to Benefits Agency payments and other Post Office transactions.

After the end of the period, on 29 February 1996, an invitation to tender for this contract was issued to the company. Tenders were submitted on 21 March 1996.

On 29 March 1996, De La Rue plc agreed to sell its shares in the company to ICL and on 2 April 1996, Girobank Plc agreed to sell its shares in the company to ICL.

Results and Transfer to Reserves

The company has not commenced trading and there was no profit or loss nor any recognised gains or losses for the period.

Fixed Assets

Fixed assets are dealt with in note 2 to the financial statements.

Directors and Directors' Interests

The directors of the company who served during the period were as follows:

Sir Michael Butler	(appointed 9 June 1995) (Chairman)
JH Bennett	(appointed 9 June 1995)
AE Oppenheim	(appointed 15 June 1995)
TK Todd	(appointed 28 February 1995) (Deputy Chairman)
J White	(appointed 9 June 1995) (Non-executive)
S S Jones	(appointed 9 June 1995, resigned 8 September 1995) (Non-executive)
R L Banks	(appointed 8 September 1995) (Non-executive)
TJ Reynolds	(appointed 17 July 1995) (Non-executive)
R F Scott	(appointed 28 February 1995, resigned 9 June 1995)
Waterlow Nominees Ltd.	(appointed 19 January 1995, resigned 28 February 1995)

After the end of the period, on 15 March 1996, Mr M Murphy was appointed to the Board.

Statement of Directors' Responsibilities

The directors are required by the Companies Act 1985 to prepare financial statements on the going concern basis, unless it is inappropriate to do so, for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages [to], the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Political and Charitable Donations

The company made no charitable or political donations during the period.

Auditors

Price Waterhouse have indicated their willingness to continue as auditors of the company and a resolution proposing their re-appointment will be put to the annual general meeting.

By order of the Board

R F Scott
Secretary

[Date]

Registered office:
1 High Street
Putney
London SW15 1SW

Pathway Group Limited (formerly Maidhaven Limited)Balance Sheet as at 31 December 1995

	<u>Notes</u>	<u>1995 £</u>
Fixed Assets		
Investments	2	<u>1</u>
Current Assets		
Cash at bank and in hand		100
		<u>100</u>
Creditors - falling due within one year	3	(1)
Net Current Assets		<u>99</u>
Total Assets less Current Liabilities		<u>100</u>
Capital and Reserves		
Called up Share Capital	4	100
Total Shareholders' Funds		<u>100</u>

The directors have taken advantage of the special exemptions conferred by Schedule 8 to the Companies Act 1985 applicable to small companies in the preparation of the accounts and have done so on the grounds that, in their opinion, the company is entitled to those exemptions.

Approved by the Board of Directors on [] 1996
and signed on its behalf by:

Director

The notes on pages [to] form part of these accounts

Pathway Group Limited (formerly Maidhaven Limited)

Reconciliation of movements in Shareholders'
Funds for the Period ended 31 December 1995.

	1995 £
New shares issued	100
Net addition to shareholders' funds	100
Opening Shareholders' Funds	-
Closing Shareholders' Funds	100

Pathway Group Limited (formerly Maidhaven Limited)

Notes to the Accounts for the period ended 31 December 1995

1. Accounting Policies

Basis of Preparation

The financial statements of the company have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards, except that the company has taken advantage of the exemption in Financial Reporting Standard No. 1 from producing a cash flow statement on the grounds that it is a small company.

Consolidation

The company has taken advantage of the exemption in the Companies Act 1985 not to prepare group accounts on the grounds that the company and its subsidiary is a small group. These financial statements present information about the company as an individual undertaking and not as a group.

Shares in subsidiary company

The company's investment in a wholly owned subsidiary company is valued in the company's financial statements at cost less any amount written off for permanent diminution in value.

2. Fixed Asset Investment

	1995 £
Investment in subsidiary undertaking	1

The investment relates to the company's 100% holding of the ordinary share capital of Pathway 2000 Limited, a dormant company registered in England and Wales.

3. Creditors - amounts falling due within one year

	1995 £
Amount due to subsidiary undertaking	1

4. Share Capital

	1995 £
Authorised:	
Shares of £1 each	1,000
	1995
	No.
Allotted, called up and fully paid:	
Shares of £1 each	100

5. Directors' Interests

None of the directors had any interest in the capital of the company either on appointment or on 31 December 1995.

PATHWAY GROUP LTD

TO: Pathway Board Members

FROM: J.H. Bennett - FEL 01

CC: R.F. Scott

Ref : jhb/Apr.96/210

Tel : GRO GRO

Date: 18th April 1996

SUBJECT: Managing Directors Report
Board Meeting 25th April 1996

1. INTRODUCTION

An update report on the Pathway tender was issued to the Board on the 9th April 1996. For convenience, a copy is attached.

2. NEW ITT

Following the Core Negotiating Team meeting on the 12th April, we have now received the request to re-tender. This was issued following a meeting of the sponsors on the 16th April and is due for reply by 10.00am on Monday 22nd April.

The elements of the Pathway price amendment proposal which have been accepted by the programme include the following:

- i. Monthly payment terms.
- ii. An extension to contract life.
- iii. A modest reduction in the total counter population.
- iv. The removal of the need for the service provider to provide Storage and Retrieval for receipts.
- v. Acceptance of a more simplified mechanism for POCL documentation
- vi. An acceptance of a more limited scheme of issuing pick up notices.

In cost impact terms this means something over half of our ideas have now been accepted and this is very encouraging.

However this re-tender is not without risk, particularly when the instructions to tenderers states "You should feel free to vary any other aspect of your original tender, whether or not such variations were discussed with the authorities during the repricing negotiations". This in many ways opens the door to any major repricing a service provider may wish to make. It is generally well known in the marketplace that Pathway's was the best priced on the table so far, so this may well stimulate more competition.

The strong advice we are getting from the programme is to make our re-tender compliant against the new terms now issued. These terms themselves have adopted a large number of our amendments made in our variant bid of the 21st March. They have not however met us in all aspects and the key decision for Pathway is how far to go along this road.

3. PATHWAY'S SUB-CONTRACTS

Very good progress has been made overall on this subject this month and in all cases we now have either signed sub-contracts or agreed terms and conditions. These will be activated as soon as an award is made.

Work with the EDSC resources has moved ahead very quickly and Escher have been running in Boston a training programme for our key people, followed up by a two week practical workshop during which actual code and work will begin. Progress on this is being very positive from all sides.

We have also run our monthly Suppliers Forum which currently we use as a main focus for communication to all our sub-contractors. This is well received by the community at large and give us an excellent platform to communicate the overall picture. After award has been placed, then I see this Forum taking even greater importance as we drive all our work to meet key milestones.

4. PATHWAY ORGANISATION

Following the decision by the shareholders for Pathway to become a totally owned ICL subsidiary, I have reviewed all the resources within Pathway and have agreed with Girobank the timing of all the secondments and how long they should continue. As a result a number of staff will finish by the end of April and May, and as it stands at the moment all staff will have returned to the Bank by the end of the year.

5. SUMMARY OF KEY POINTS

- i. Careful submission of a re-tender.
- ii. Rapid competence building in the EDSC facility.
- iii. Building up key resources and planning such that Pathway hits the street running after an award decision.

John Bennett

Attachment:

Pathway

M E M O

To: Pathway Board

From: Tony Oppenheim
FEL 01

Tel:
ITD:
Mobile:

GRO

Date: 23rd April 1996

Finance Director's report - April 1996

Highlights

Good:

- * Pathway restructuring accomplished to meet customer requirement
- * Strong indications that we were competitively priced following the first Tender - albeit above Budget
- * Retender substantially on our terms - compliantly
- * Our timetable adopted as the compliant standard for all three bidders, we believe
- * No surprises in the second ITT, which invited straightforward confirmation of the changes discussed after the first Tender
- * Good progress on sub-contracts
- * Resourcing and competence ramping up in anticipation of award
- * Full planning and control processes becoming established
- * No degradation of Business Case

Not so good:

- * Work still to do on financing, reflecting the new circumstances
- * Tight deadlines on functional spec. and acceptance criteria
- * Counter equipment definition not entirely stable
- * ISDN boards still undergoing change

Timetable

The Procurement team appear confident that award will be made mid-May despite the second iteration of tender.

We will then run a number of activities in parallel:

- o agree functional specs by end June, then go on to finalise the Release strategy, Service Definitions and Acceptance criteria - and tie up any other loose ends (eg. exact counter equipment spec.) - within 90 days of award;
- o prepare for limited go live in September (Beta site);
- o ramp up the detailed integration and test of all end-to-end components (function and stress tests) prior to User Acceptance Tests in Q1;
- o complete the setting up of Pathway as a business;
- o complete financing arrangements (see below).

The target start date for commencement of roll out remains July 1997, completing December 1998 for counters and July 1999 for cards.

The end date for the contract has been extended from July 2004 to February 2005 - a factor which has been taken into account in the repricing.

Customer negotiations

The majority of the changes we made in the Variant bid were accepted by the customer following protracted further negotiation. Substantive fault remains, but given all the other changes, is now confined to serious and medium severity faults regarding stated requirements not satisfactorily met. Requirements continue to have precedence over Service Definition unless amended by change control, but this is something we should be able to manage.

Notably, the customer has accepted our proposed timetable with respect to agreement of functional specs by end June, release strategy and UAT starting January 1997. We understand that it has been stated as the re-ITT timetable requirement for all three potential service providers. This is a major coup and helps us greatly.

Against a backcloth of requirements creep and consequent increase in price as compared with the Indicative Costings provided as part of the June Proposal, we put forward a shopping list of savings for the procurement team to take back to sponsors. These totalled some £30m per annum in potential savings to them (but with no adverse effect on our Business Case). Of these, the Re-ITT confirmed take-up of roughly two thirds.

Taken together, a very satisfactory outcome compared with where we were before Christmas, enabling us to re-tender on a compliant basis.

Funding

The restructuring of Pathway has caused us to have to revisit the financing strategy.

Credit Suisse have withdrawn. Toronto Dominion remain a possible.

We are now looking to lease finance (partly for ICL tax reasons, partly for balance sheet reasons) rather than senior debt. That calls for at least one major UK bank with tax capacity to be included in the syndicate. In addition, we want a major Japanese bank who will take comfort from ICL's Fujitsu connection. A European or North American major would round out the profile and ease the task of selling down to smaller banks across a wide spectrum.

The target composition for the lead players is probably three banks drawn from:

- one UK clearer - Barclays, Royal Bank of Scotland?
- one Japanese bank - Bank of Tokyo-Mitsubishi?
- one European bank - Societe Generale, BHB?
- one North American bank - Citibank, Toronto Dominion?

ICL Treasury are now leading the search activity based on ICL's relationship bank community, with Hambros still leading on the wider community.

The financing will be full recourse to ICL during the design and build phase (up to steady state), with a switch to limited recourse from that point. This will be defined by reference to a detailed set of performance and financial criteria to be agreed up-front, probably requiring an amount of preliminary due diligence on our solution by independent consultants acting on behalf of the banks (the final due diligence being to certify satisfactory conversion to steady state).

Pricing and Business Case

The Scorecard methodology, including discounts for volume by year and differing guarantee levels by service element, has been carefully modelled and integrated into the Business Case model. [The combined set, including sub-contract data and performance penalty model, now fills four diskettes....].

It has therefore been possible to reliably and quickly assess the effects of possible changes to payment profiles, levels of requirement or extension of contract. More importantly, we could select the best combination of price parameters to ensure that the impact of each change on the Business Case at the individual service element level was either neutral or marginally positive.

At the same time, the latest cost predictions from Terry Austin's group have been factored in. These had a small negative effect on the Business Case (costs exceeded what I had previously assumed, but not by much). The negative impact has been exactly offset by the marginal improvements from the repricing.

Risk

On both risk registers, one customer, one our own, the update is all positive.

The end position prior to closing for ITT on the customer register was that we had almost a completely clean bill of health. Only four B2 risks remain (all associated with fraud and reflecting our resistance to accepting uncontrollable fraud risk transfer), and three B3s. This was a superb achievement on the part of the full team, and means that we went into the evaluation with minimal handicapping (better than the competition, we believe).

On our own risk register, the position has also improved significantly, albeit we have plenty of demanding work ahead of us. In particular, excellent progress has been made on the technical/programmes front with Escher, Oracle and the European Development and Support Centre (EDSC): we are now in good shape on the major components.

The only components worth noting for risk currently are:

- counter terminal configuration still fluid
- ISDN card not yet to spec
- MIS approach/spec not yet agreed.

Actions are in hand on all three.

Manpower and Costs

Plans are now being reviewed at the detailed programme plan level on at least a monthly basis, in terms both of output to timescales and cost inputs.

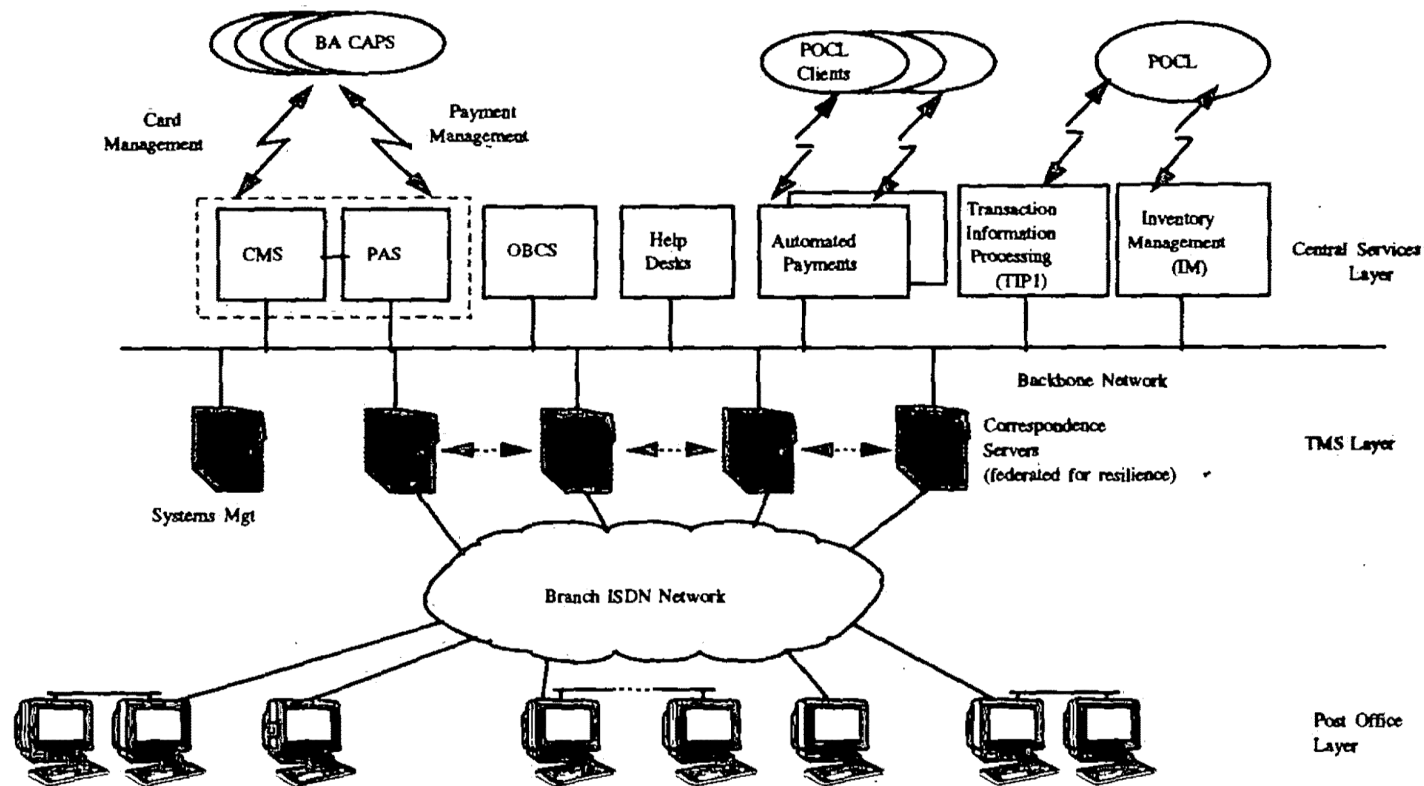
Cost inputs are expressed in work breakdown structure terms (operating spend and capital spend). They drive the manpower plans and the cost budgets/forecasts by department. These are then reflected into the Business Model.

A separate report describes the spend contemplated this year and during the first six months of 1997 - showing that a rapid and significant ramp up of spend has already started.

Tony Oppenheim

Pathway

THE PATHWAY SOLUTION



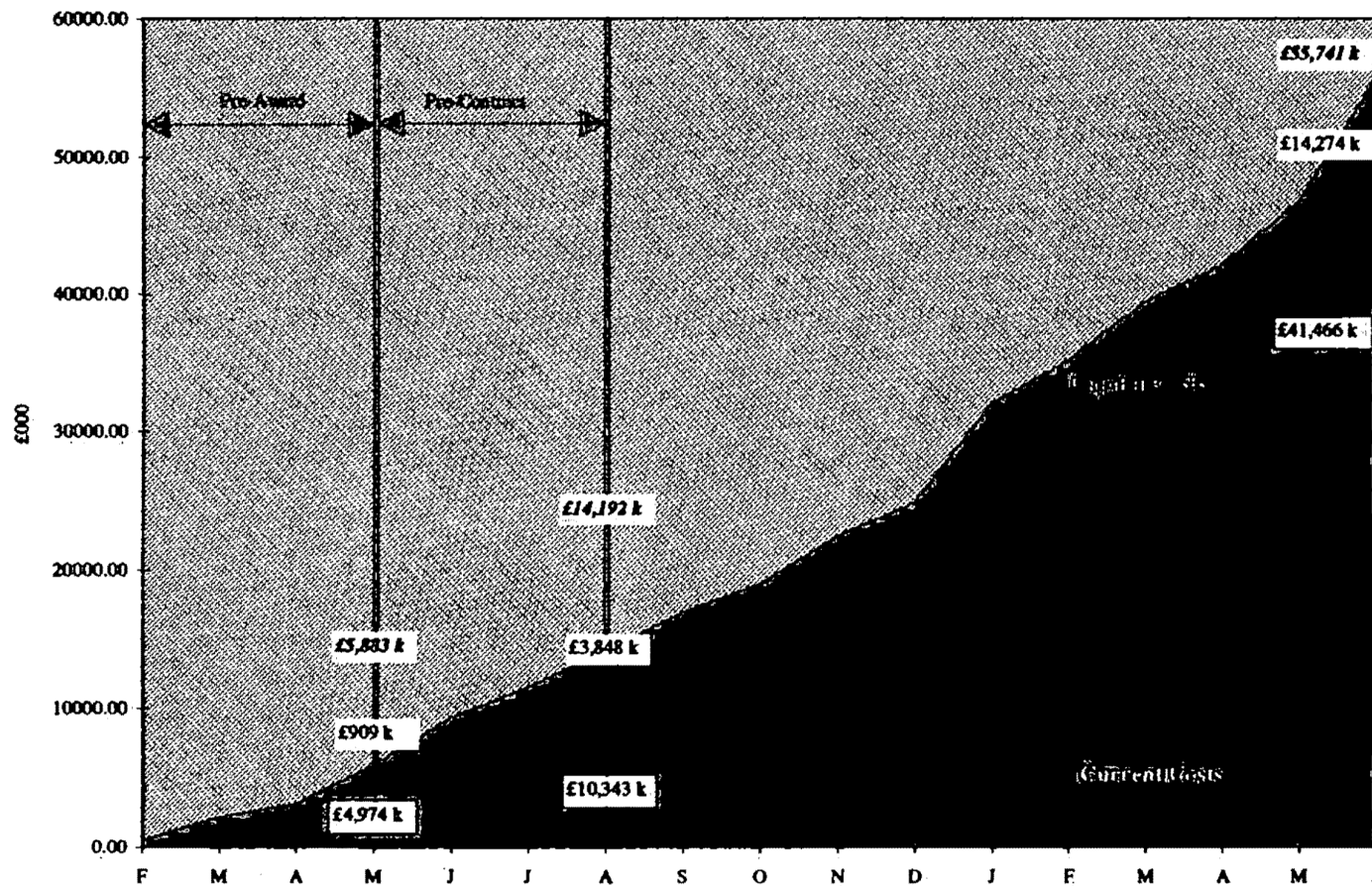
Risk Analysis

Top 10

- ☐ Business requirements unclear or not agreed?
- ☐ End to end technical design issues?
- ☐ Change/configuration management inadequate?
- ☐ Risk management comprehensive?
- ☐ No acceptance criteria
- ☐ External interfaces inadequately defined?
- ☐ Invalid performance assumptions?
- ☐ Software quality below standard?
- ☐ unforeseen roll-out problems?

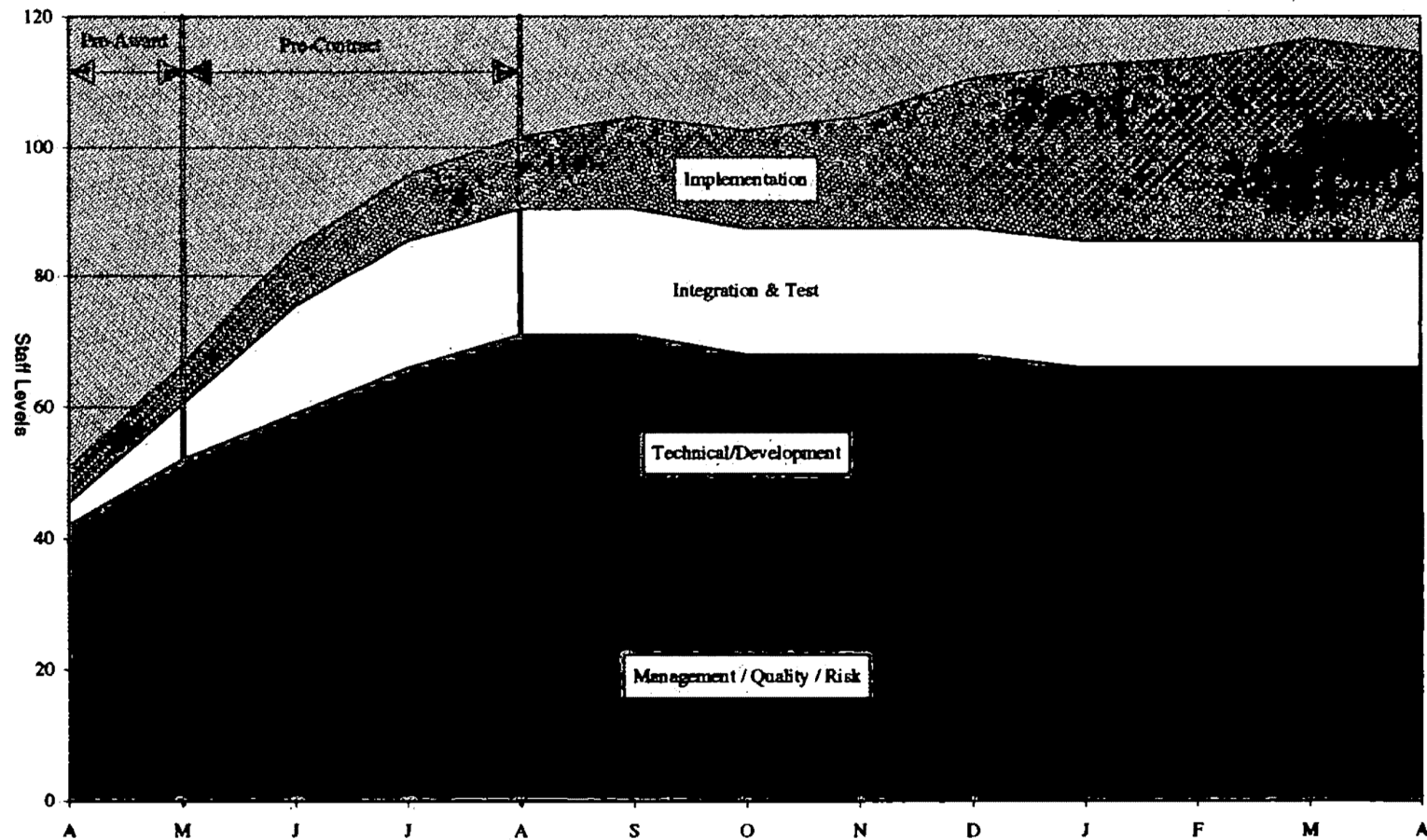
Programme Cumulative Expenditure

Pathway



Headcount

Pathway



To: Terry Austin

From: John McIntosh

Subject: Programmes Recruitment Activity, March-April 1996

Date: 24th April 1996

-

New Joiners:

Programmes Office: Assistant Planner: Ian Thompson
Planning Support: Josie Lee

Technical: Technical Manager: Alan Ward
Objects Analyst: Chris Plunkett
Process Engineer: John Newitt

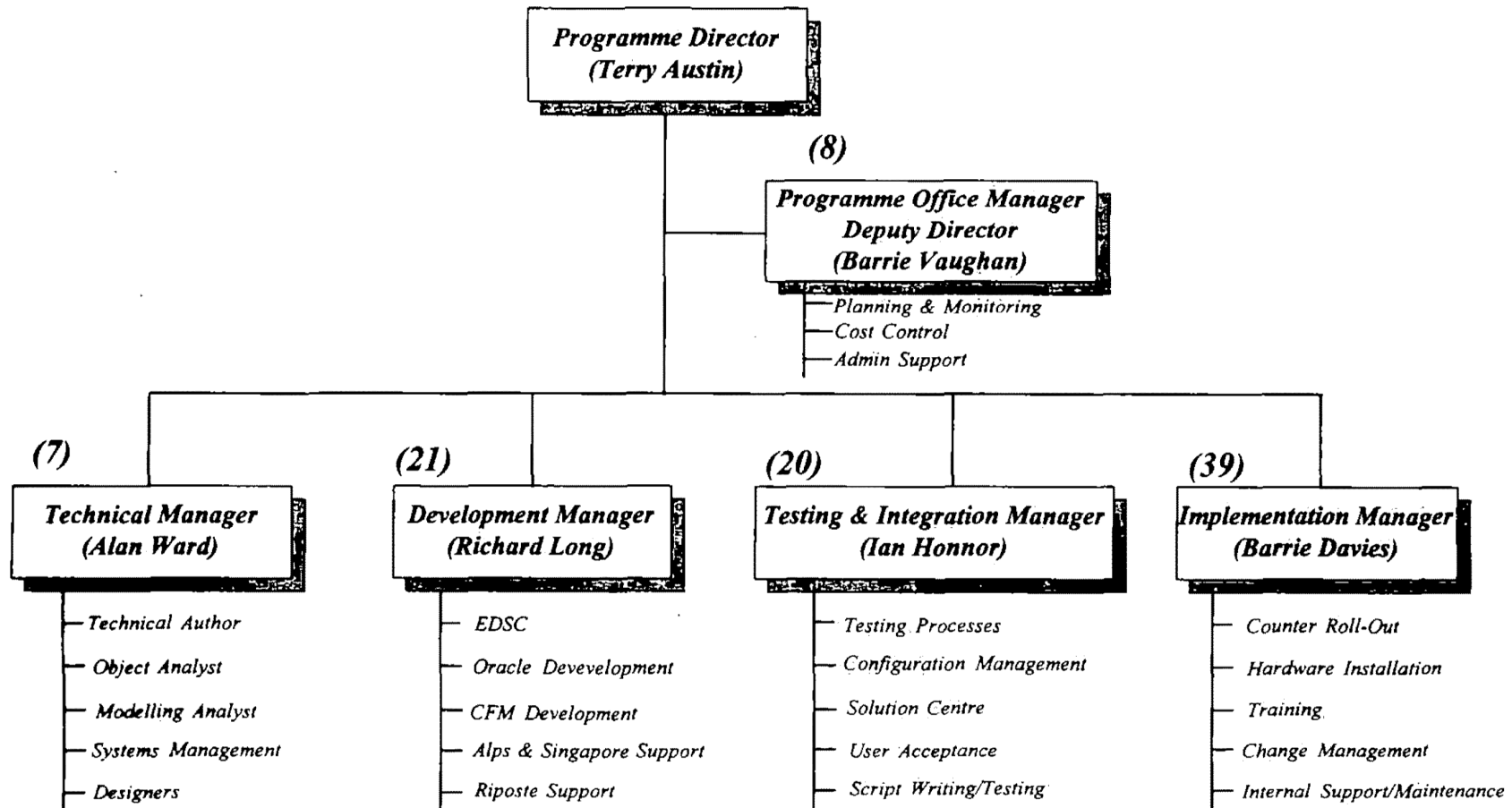
Development: Development Manager: Dick Long
Technical Author: Janet Dore
Escher Communication: Christine Neiras

Integ. and Test: Test Analyst: Chris Pibworth
Test Analyst: Duncan Smith

Implementation: Systems Support Manager: Brian Ford

On offer: EDSC Manager, Nick Peach
Tech Specialist, EDSC, Richard Robinson
Developer, John Warwick
Configuration Manager, (TBA - Enterprise Technology)
Planner, Mark Hayman

Programmes Organisation Chart

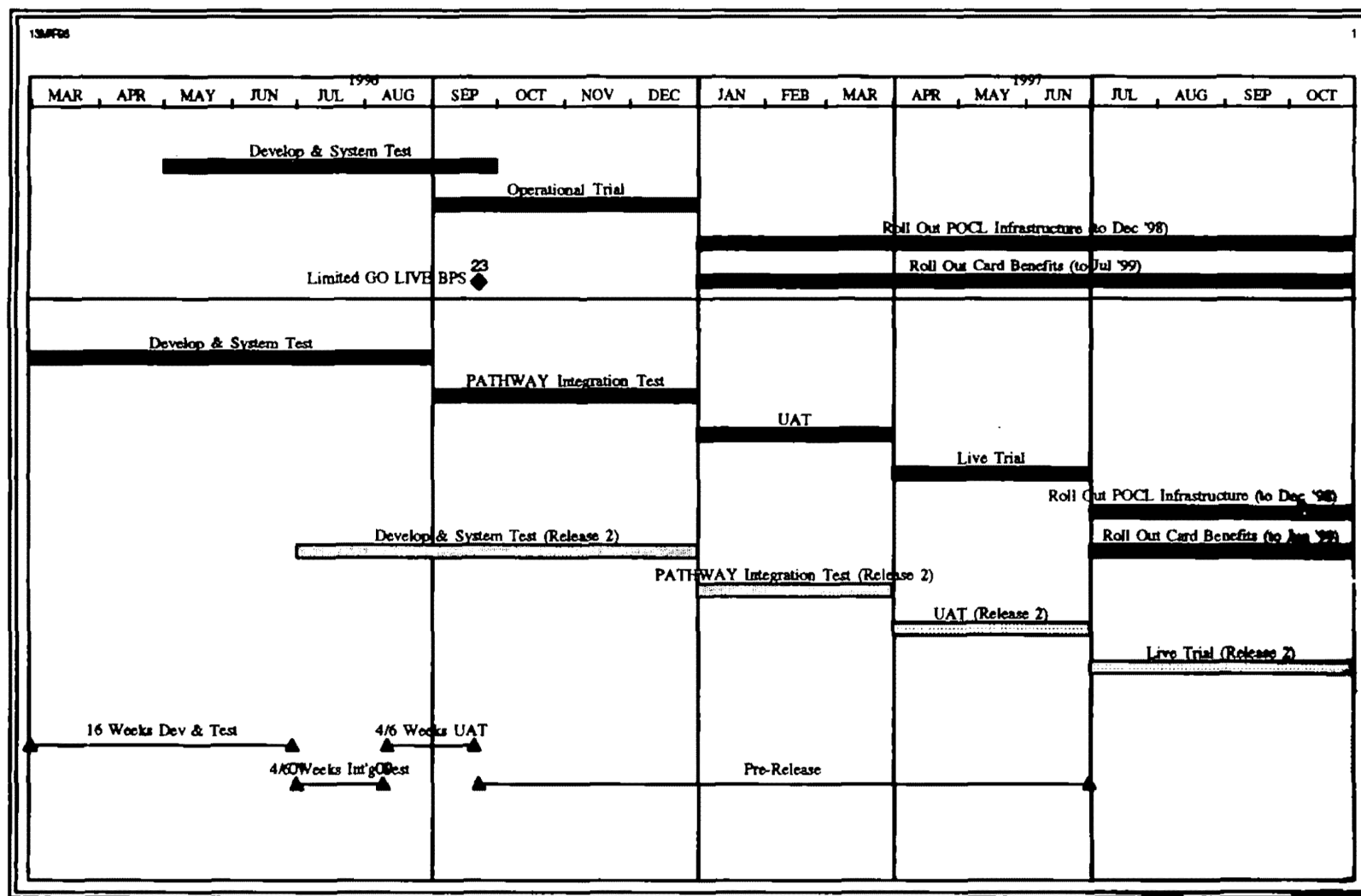


Pathway

Current Focus

- ☐ Detailed Programme Plan
- ☐ Finance & Manpower Resources
- ☐ Limited Go Live (Pre-Release)
- ☐ Post Award
 - Functional Specification
 - Usability Trials
 - Acceptance Criteria

Schedule Summary



Pathway

Final Risk Register

Category	No. of Risks	Description
A	0	
B1	0	
B2	2	Fraud Risk Management
	2	Card technology & payments
B3	2	Escher
	1	Technical solution
	1	OBCS requirement
C	1	Pathway definition
	1	Generic functions
	1	Scalability
	1	Volume foreign encashments
	5	Requirements
Total	17	

Pathway

Key Risks

☐ Commercial

- ☐ Business volumes - mostly POCL
- ☐ Fraud control
- ☐ Risk management & contingency

☐ Technical

- ☐ Business requirements understanding
- ☐ End to end design / scalability
- ☐ End to end security

☐ Development

- ☐ External interfaces
- ☐ Performance assumptions
- ☐ Software quality
- ☐ Change / configuration management

Pathway

Key Risks

- ☐ Programme
 - ☐ Achievement of timetable
 - ☐ Acceptance criteria
 - ☐ Roll-out problems
 - ☐ Change / configuration management
- ☐ Operations
 - ☐ Sub-contract performance
 - ☐ Performance to SLA's
 - ☐ System acceptability to users

Pathway

Risk Process & Analysis

- ☐ Under development - 30/4/96
- ☐ Risk Analysis underway - 17/5/96
- ☐ Mitigation plans
- ☐ Contingency
- ☐ Escalation to Keith Todd
- ☐ Pathway Risk Review - 23/5/96

Thu 11 Apr, 1996 09:45 mailbox dpb/mail/standard Page 1

DATE	FROM	SUBJECT	CODES
10/04/96	J.H.Bennett	UPDATE ON PATHWAY TENDER	[Printed]

Intended: R.F.Scott

Sent: 10/04/96 at 11:21

Delivered: 10/04/96 at 11:23

To: Richard Banks, Sir Michael Butler, A.E. Oppenheim, Terry Reynolds +

CC: J.A. Jones

Ref: 13287

From: J.H.Bennett

Auth by:

Subject: UPDATE ON PATHWAY TENDER

Text: PSA

Priority: Normal
Reply Request []SEE PAGE
View Acknowledge []Attachments [1]
Codes [Printed]

PATHWAY GROUP LTD

TO: Pathway Board of Directors FROM: J.H. Bennett - FEL 01
CC: Tony Oppenheim Ref : jhb/202
 John Jones Tel : GRO
Date: 9 April 1996

SUBJECT: UPDATE ON PATHWAY TENDER

Since our two Tenders were submitted on 21 March the progress has been as follows:

1. The compliant response has been disregarded and all activity now centres on the main proposal which is a variant bid.
2. We have received approximately 20 requests for clarification. None of these have been too difficult and all have been replied to within 24 hours.
3. We have, however, been asked to submit a price amendment proposal. This applies to all three Service Providers and is due to the fact that prices have increased substantially since the proposals were submitted in June 1995 together with indicative prices.
4. We submitted on Thursday 4 April a response to this request which also bridged in detail why our variant prices were higher than the indicative prices. Virtually all of this is due to increased requirements coming from the two sponsors.
5. Perhaps more importantly we also suggested ways in which the programme could reduce its annual costs. The key components are:
 - i. modification to payment terms for paying in advance.
 - ii. an extension to the contract life of steady state service.
 - iii. the programme purchasing the benefit cards when issued.
 - iv. a re-definition of SLA penalties and their costs.
 - v. modification of maintenance cover to reflect better value.
 - vi. transfer of fraud risk back to the programme rather than with the Service Provider.

- vii. looking for ways to reduce the total counter population by approximately 8%.
- viii. transfer of the paper, storage and retrieval system back to the programme.
- ix. a better way of handling POCL documentation.
- x. a more efficient way of issuing pick-up notices.

All these possible areas will save the programme money but none will bring about a discount on the core services provided by Pathway.

- 6. Should the full package of changes above be accepted then there is a slight improvement in Pathway's internal rate of return.
- 7. Pathway has been asked to attend a further core negotiating team (CNT) on Friday 12 April for a final discussion on a price amendment proposal.
- 8. The overall reaction to the Pathway Tender and indeed to the price amendments has been prompt and good. The next key event is the Sponsors meeting on 16 April when the intention is for a final recommendation to be made.

If anything changes significantly this week, I will issue a further update.

Regards.

John Bennett

PATHWAY GROUP LTD

TO: Pathway Board of Directors
01

FROM: J.H. Bennett - FEL

Ref : jhb/202

CC: Tony Oppenheim
John Jones

Tel :

GRO

GRO

Date: 9 April 1996

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Regards.

John Bennett