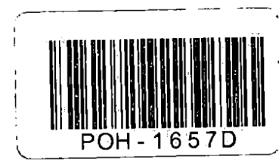


Tue 13 May, 1997 10:05 mailbox rs/mail/standard Page 15



DATE	FROM	SUBJECT	CODES
12/05/97	Tony Oppenheim	ICL Pathway ISC status report	[]

Sent: 12/05/97 at 21:58 Delivered: 12/05/97 at 23:50

To: L.M.Furnell,S.Riesenfeld,Keith Todd,R.F.Scott

CC: John Bennett

Ref: G10021FC860A00000102077A587F042E

From: Tony Oppenheim

Subject: ICL Pathway ISC status report

*has V7
ME V4*

Text: Attached is the slide set I propose using on Thursday.
I will have additional financial material with me. Joan has it available here if required before then.
Would Linda please make sure that Keith gets this before the meeting and is

TEXT COPIED FROM FIRST ATTACHMENT

Priority: Normal
Reply Request [*]

View Acknowledge [*]

Attachments [2]
Codes []

Attached is the slide set I propose using on Thursday.

I will have additional financial material with me. Joan has it available here required before then.

Would Linda please make sure that Keith gets this before the meeting and is made aware of the fact that I shall not be presenting good news.

Thank you.

Tony.

**** DOCUMENT TYPE INFORMATION ****

Ma has the following body parts:

Body 1 : # f0#

ISC.PPT 12.05.1997 21:47 62464

powerpoint/isc/pain/woman.ppt
can't view
TO - V7
ME - V4

ICL Pathway Status Report

ISC - May 15th 1997

ICL Pathway

Highlights

- One year since award
- Replan - contract extension
- Programme status
- Increased complexity/cost
- Impact on Business Case
- Impact on cash call

ICL Pathway

Slide 2

Replan

- Roll out deferred from July '97 to Nov '97
- Interim releases - 1b, 1c - to derisk plan
- Live Trial up from 60 to 300 post offices
- Parallel "early roll out" within Live Trial
 - ❑ 450 OBCS 1b post offices
 - ❑ 1000 full release post offices
- Contract extension from Feb to Sept 2005
- Additional training costs of £8m recovered
- No penalties

ICL Pathway

004

Programme Status

	<u>Contract</u>	<u>Replan</u>	<u>Current View</u>
IGL Start	Sept 96	Sept 96	Sept 96
Live Trial:			
- Start	April 97	Sept 97	Oct 97
- End	June 97	Nov 97	Jan98
- Post Offices	60	300	300
- Streams	1	3	3
Installed PO's in 1997	6000	2200	1300
Contract End	Feb 2005	Sept 2005	Sept 2005

ICL Pathway

Slide 4

ICL PATHWAY

90

14/05 '97 WED 08:42 FAX

Increased complexity/cost

- Security
 - encryption
 - access control
 - resiliency
- Systems management
 - Tivoli instead of SMS
 - autoconfiguration
- Network
- Reporting/reconciliation/audit/billing/service level monitoring/fraud risk management

ICL Pathway

Impact on Business Case - PBT

£m

- **ISC Business Case** **124**
- **Delays:**
 - Replan** + 3
 - CAPS migration phased** - 8
 - Six week slippage** - 8
- **Increased complexity**
 - Initial development and test** - 18
 - On-going operational costs** - 48
 - Multiple comms links** - 9
- **All other**
 - Mostly volume** + 44
- **May Forecast** **80**

ICL Pathway

Impact on cash call

- Peak borrowings increased:
 - from £187m at ISC
 - to £285m now
 - cf. £250m bank lines
- Cash payback delayed:
 - from 2002
 - to 2004
- Asset Co. structure still viable
 - But Op. Co. returns poor
 - Get well programme required

STRICTLY CONFIDENTIAL

PATHWAY

Pathway Business Case without Contingency
Six week slip on Replan
Date: 11/5/97

Equity reduced from £40m to £20m
May Forecast

FINANCIAL SUMMARY

POUNDS MILLION

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL	ISC Restate
End of Contract, month in 2005 (Calendar):										9		
Final year phasing adjustment:										-25%		
REVENUE												
REVENUE net of LDs	0	2	64	157	188	188	183	177	171	125	1255	1098
ISC Business Case	0	15	102	168	172	165	157	151	145	23	1098	
REVENUE gross	0	2	67	160	190	191	185	179	174	126	1273	1116
Revenue Guarantee	0	1	42	109	125	143	133	123	114	104	893	820
ISC Business Case	0	19	104	170	173	167	159	153	147	24	1116	1116
Bank Brief with POCL contingency		5	83	170	184	180	173	166	159	116	1234	1216
Bank Brief without contingency		5	83	170	191	186	179	172	165	120	1271	1237
PBT												
PRIOR YEAR BID COSTS	2											
OPERATING SPEND	23	57	90	105	92	99	106	100	109	85	867	723
DEPRECIATION	1	3	13	24	28	31	33	31	17	3	183	157
FRAUD	0	0	0	2	4	5	5	5	5	5	32	31
WIP	24	62	49	-11	-22	-22	-22	-22	-22	-16	135	51
INTEREST	0	4	9	10	25	19	14	9	5	-1	94	62
PBT excl p/y Bid Costs	0	0	0	5	17	13	3	10	14	18	80	124
ISC Business Case	-1	-5	-14	17	28	21	17	24	30	7	124	

CASH FLOW before tax and dividends												
DISCRETE	-22	-120	-130	8	63	57	49	55	47	57	64	108
CUM	-22	-142	-271	-264	-201	-144	-95	-40	7	64	64	108
ISC Business Case Cum	-24	-110	-187	-159	-96	-48	1	46	87	108	108	
FUNDING at year end												
EQUITY	20	20	20	20	20	20	20	20	20	0	20	20
ADVANCED PAYMENTS	0	0	0	0	0	0	0	0	0	0	0	0
END BORROWINGS	2	122	251	244	181	124	75	20	-27	-1	251	167
PEAK BORROWING		136	251	285	251	191					285	187

SHAREHOLDER RETURNS												
P/Y BID COSTS - PRE TAX	2										2	4
EQUITY INJECTION	20	0	0	0	0	0	0	0	0	-20	0	0
DIVIDENDS	0	0	0	0	0	3	3	3	17	65	92	128
INVESTMENT/RETURN	-22	0	0	0	0	3	3	3	17	85	90	124
PROJECT INTERNAL RATE OF RETURN - PRE TAX											=	13.0% 20.2%
RETURN ON EQUITY - PRE TAX											=	19.3% 24.8%
SHAREHOLDER VALUE @ WACC OF						7.9%					=	25.1 17.9

12/05/97

ICL Pathway Total

AEO

STRICTLY CONFIDENTIAL

PATHWAY

Pathway Business Case without Contingency

VOLUMETRICS SUMMARY

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	TOTAL
INFRASTRUCTURE											
Number of Post Offices installed		1496	15633	18919	18771	18624	18479	18479	18336	18194	18919
Number of Counter terminals	2431	33913	38534	38534	38326	38121	37917	37715	37515	37318	38534
Number of Counter Applications	4	5	6	8	8	8	8	8	8	8	8
Number of POCL linked clients	3	11	31	61	81	81	81	81	81	81	81
TRANSACTIONS BY TYPE, millions											
ACT	0	104	484	686	699	699	698	698	699	699	4767
UBCS	8	336	252	1	0	0	0	0	0	0	597
Endorse Token	0	1	46	90	107	120	127	134	134	134	760
INPAY (Bill payments)	3	119	358	671	728	753	778	802	802	802	5016
OUTPAY (mostly BA benefits)	9	461	790	784	787	776	770	766	766	766	5909
Supplementary Details Capture	0	21	68	136	152	162	171	180	180	180	1068
Forced Receipt (mostly INPAY)	3	122	378	699	741	752	767	784	815	815	5060
Token Management	0	1	3	5	7	8	9	10	10	10	53
MAILS	0	0	146	210	212	215	219	223	223	223	1448
INVEST (banking application)	0	0	3	11	14	17	19	22	22	22	108
EFTPOS	0	6	50	99	105	108	111	114	114	118	710
EPOS (= Total)	33	1097	2189	2289	2313	2336	2364	2397	2397	2397	17417
Service points per counter transaction - av.	15	17	18	20	21	21	21	21	21	21	
KEY BUSINESS VOLUMETRIC PERCENTAGES											
ACT % of total BA payments	20%	20%	22%	23%	23%	24%	24%	24%	24%	24%	23%
BA Transactions % of Total	24%	40%	34%	30%	30%	30%	30%	29%	29%	29%	31%
BA Revenue % of Total	37%	59%	60%	59%	59%	59%	58%	58%	58%	58%	58%
My One® Revenue % of Total	100%	91%	79%	74%	74%	73%	73%	72%	72%	72%	74%
New products % of Total	0%	9%	21%	26%	26%	27%	27%	28%	28%	28%	26%
CARDS, millions											
Number of active beneficiaries	0.2	8.8	18.2	19.8	19.9	20.0	20.2	20.3	19.5	19.5	20.3
Number of card holders	0.2	10.6	21.5	23.1	23.3	23.4	23.6	23.8	22.8	22.8	23.8
Number of card issues	0.2	11.6	14.0	6.3	10.8	12.5	8.7	11.8	12.1	12.1	88.1
Number of Tokens issued	0.0	0.1	1.7	2.8	2.8	2.8	2.8	2.9	2.9	2.9	18.8
HELP DESK CALLS, millions											
CMS	0.0	0.8	2.3	3.4	3.5	3.4	2.7	3.4	3.4	3.4	23.0
PAS from POCL counter clerks	0.0	1.2	1.1	1.0	1.0	1.0	1.0	1.0	0.9	0.9	8.1
PAS/CMS from BA staff	0.0	0.2	1.0	0.5	0.6	0.6	0.6	0.6	0.5	0.5	4.4
Roll Out	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Horizon Help Desk (CS)	0.0	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	3.3
TOTAL	0.0	2.8	4.9	5.3	5.4	5.3	4.7	5.3	5.3	5.3	39.0

STRICTLY CONFIDENTIAL

PATHWAY

Pathway Business Case without Contingency

BUSINESS CASE TRACK

Equity

Equity reduced from £40m to £20m (ISC PBT restated from £137m to £124m).

Risks included in December compared with ISC:

- + £7.8m of training costs
- + £2m of counter space and £1m of 32 mb costs
- + EMC disks, additional Sequent m/cs, test rigs, encryption and systems mgt. m/cs
- + Oracle spend - CMS/PAS - compliance with Requirements/ CAPS changes
- + Tivoli systems mgt., auto-configuration & SMC/software distribution
- + CAS operational service (ITSA) - assumption
- + £1.5m p.a. transaction time penalties (Drop Down assessment)
- + CFM running costs (data centre/MIS/data warehouse)
- + 50 manyears Pathway effort in 1997
- + 40 heads (to 95) on-going for Pathway each subsequent year
- + Other costs
- + Interest on adverse cash flows
- Probable 3 month slip
- Expected 12 month slip in CAPS migration plan (conversion to cards)

<u>Forecast variance</u>		
<u>1997</u>	<u>1998-05</u>	<u>Total</u>
1.0	6.8	7.8
0.5	2.5	3.0
5.0	2.0	7.0
2.5		2.5
1.5	5.5	7.0
	4.5	4.5
	10.5	10.5
	10.0	10.0
6.0		6.0
	28.0	28.0
	6.0	6.0
	12.0	12.0
8.0	10.0	18.0
0.5	12.5	13.0
25.0	110.3	135.3

Opportunities included in December compared with ISC:

- POCL volumes up - greater confidence from Drop Down analysis - margin
- Financing costs reduced - Fujitsu backing
- £1.5m p.a. fraud & related costs
- Seven month extension to term - assumption

	87.0	87.0
	17.0	17.0
	9.5	9.5
	24.0	24.0
	137.5	137.5

Net cost impact of December Forecast compared with ISC

-25.0	27.2	2.2
--------------	-------------	------------

Adjustment for delay in Asset deployment (Roll Out)

20.0	-20.0	-
------	-------	---

Net cash impact

-5.0	7.2	2.2
-------------	------------	------------

12/05/97

ICL Pathway Total

AEO

STRICTLY CONFIDENTIAL

PATHWAY

Pathway Business Case without Contingency

BUSINESS CASE TRACK

Equity

Equity reduced from £40m to £20m (ISC PBT restated from £137m to £124m).

	Forecast variance		
	1997	1998-05	Total
Risks included in May compared with December:			
Anticipated six week slip	0.5	7.0	7.5
+ Security and performance development costs - HPS	1.0	1.0	2.0
+ Oracle/Escher/CFM spend - compliance with Requirements/ CAPS changes	1.5		1.5
+ 20 Integration and Test heads in '97 & '98	2.0	2.0	4.0
+ Additional CFM running costs reflecting added complexity	1.0	7.7	8.7
+ Additional SMC/software distribution/Horizon help desk costs	1.5	7.4	8.9
+ Additional 15 heads (to 110) on-going for Pathway (CS) (20 manyears in '97)	2.0	7.5	9.5
+ Comms link costs - remote sites including BA	0.5	4.3	4.8
+ Public awareness incl. Fulfilment line	-0.5	2.5	2.0
+ £1.0m p.a. fraud & related costs		7.5	7.5
+ Other cost increases: Hambros, insurance, contractor bonus, etc.	1.5		1.5
+ Interest - higher interest rates		8.0	8.0
+ Interest - higher average negative cash balance		20.1	20.1
	11.0	75.1	86.1
Opportunities included in May compared with December:			
Net saving of £3m on training revisit/migration		3.0	3.0
Keep Mag. stripe cards, no switch to smart		10.0	10.0
CCN117 CMS & TTMS Scorecard additions - net gain		1.5	1.5
Release of remaining volume contingency - margin		24.0	24.0
Other	0.5	0.8	1.3
	0.5	39.3	39.8
Net P&L/WIP impact of May Forecast compared with December Forecast	-10.5	-35.8	-46.3
Net P&L/WIP impact of May Forecast compared with ISC	-35.5	-8.6	-44.1
Adjustment for delay in Asset deployment (Roll Out)	3.6	-3.6	0.0
Other cash movements		-0.3	-0.3
Net cash impact	-31.9	-12.5	-44.4
Risks excluded:			
Roll out rate of 300 post offices per week cannot be sustained (counter mods)		10.0	10.0
Counter space resolution costs - additional		2.0	2.0
Customer Education - benefit by benefit - shadowing CAPS migration		3.0	3.0
Increase in terminal count from 38,750 - P&L impact			0.0
CAPS Release 4: possible July '98 release to further enable multiple beneficiaries		3.0	3.0
	0.0	18.0	18.0
@ probability factor 50%	0.0	9.0	9.0
Opportunities excluded:			
??			

12/05/97

ICL Pathway Total

AEO