



From : R F Scott

To : Sir Michael Butler
Mr R Banks Girobank
Mr J White De La Rue
Mr T Reynolds An Post
Mr T K Todd
Mr J H Bennett
Mr A E Oppenheim

Date : 11 October 1995

Subject: **Pathway Group** Board Meeting
Minutes - Tuesday, 3rd October 1995

Please find attached the Minutes of the Pathway Board Meeting held on Tuesday, 3rd October 1995 at ICL in Feltham.

Regards,

Rod Scott

PATHWAY GROUP LIMITED

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS

HELD AT

ICL FELTHAM, MIDDLESEX

ON

TUESDAY 3RD OCTOBER 1995

Present: Sir Michael Butler (In the Chair)
Mr R Banks
Mr J H Bennett
Mr A Oppenheim
Mr T Reynolds
Mr T K Todd
Mr J White

In attendance: Mr R F Scott (Secretary)
Mr J A Jones (Item 42)

ACTION

95/39 **MINUTES OF THE PREVIOUS MEETING**

The Minutes of the Meeting of the Board held on 8th September were approved as a correct record and signed by the Chairman.

95/40 **MANAGING DIRECTOR'S REPORT**

The Board discussed issues arising from Mr Bennett's report. The following points were noted:

- a) Concern was expressed over poor service support from ICL Sorbus on the ALPS rollout. Mr Bennett would proceed to define the elements of a new managed service contract for discussion with ICL Sorbus. However in the meantime he would brief Mr Todd and Mr Whitwam on the situation.
- Mr Bennett
- b) The Board noted that Mr Terry Austin had joined Pathway as Programme Director on an 8 month contract and was working on the resource plan. It was agreed that Mr Bennett would arrange a top level presentation for the Board on the end-to-end solution and the Pathway Programme plan to deliver this solution. This would involve Mr Austin and Mr Dicks. The Chairman asked that Mr Bennett aim to have a paper on this subject with the Board as least a few days and ideally a week before the meeting.
- Mr Bennett
- Subject to diaries, Mr Todd, Mr Berry and Mr Bennett will be reviewing Mr Austin's programme plan before the next Board meeting. Mr Reynolds will be invited to join the review if possible.
- Mr Bennett

- c) A change to the POCL organisation was noted with Mr Rich seconded to work with Mr Dykes. This may indicate greater priority being given to the procurement.
- d) As noted at the last meeting, we were still experiencing considerable difficulty with the way the procurement was developing. POCL/BA were attempting to rewrite the SSR via detailed contract schedules, then would implement change control so that "level playing field" would be achieved with a only one substantial variable left upon which to make a final decision between the three shortlisted suppliers, namely price. (See minute 42 b) below)

95/41 FINANCE DIRECTOR'S REPORT - SEPTEMBER 1995

The Board discussed matters covered in Mr Oppenheim's report and the following points were noted:

- a) The Board were very concerned to hear that POCL may go ahead with investment in APT (Automated Payments Transfers) and TIP (to make legacy systems compatible with Oracle databases), possibly in a separate procurement. The APT investment in particular would be in response to a threat from Cashstop - a new organisation offering a cheap electronic payment system through terminals in retail outlets to pay utilities etc. bills. Not only could these investments delay the main procurement but they would be superseded by the main solution when it was in place and thus a waste of money.
- b) It was agreed that the Chairman would write to Bill Cockburn expressing the shareholders concerns on the procurement delays and the Post Office plans to invest further in APT. The Chairman and Mr Todd will see the draft letter and Mr Bennett will ensure it reaches Bill Cockburn before he visits An Post and will advise Mr Dykes of the approach.
- c) It was acknowledged that Riposte, produced by Escher, was vital to our proposed solution yet there had as yet been no effective technology transfer path agreed to Pathway. Mr Bennett would prepare a paper on proposals to deal with this issue, and try to ascertain any technical or commercial/legal concerns that Escher had.
- d) Mr Oppenheim reported on funding. Credit Suisse (who wanted a fee in respect of work before award of the procurement), and Toronto Dominion bank (who did not) were contenders as lead bank. Mr Todd agreed to try to make sure Credit Suisse dropped the request for pre-award fees and the Board were happy to proceed on the basis there would be joint lead banks.

ALL e) Mr Oppenheim said that Charterhouse Bank had been appointed as PFI advisers to POCL/BA. As part of their work Charterhouse had asked for CVs of all the Directors (please send these in to Mr Bennett). Amongst other requests Charterhouse had asked for the proposed Memorandum and Articles of Association of the Company (i.e. those which would replace the existing Memorandum and Articles which had been kept in place for the time being). The Articles were being prepared by Girobank's legal advisers and Mr Banks agreed to speak to Simon Brady on the matter.

Mr Oppenheim Mr Oppenheim would talk to Mr David Webster of Hambros about their approaching Charterhouse for a general discussion on PFI matters.

Mr Oppenheim f) Mr Oppenheim requested the shareholders to consider deeds of participation of Pathway Group Limited in their pension funds in respect of the staff they were transferring to Pathway, to be effective from the time the staff were formally transferred after contract award. He would in the meantime speak to e.g. ICL pension advisers, with experience of such participations, and provide any guidance to shareholders on what actions to take.

g) The Board discussed whether all technical elements of the solution were understood, operative and in place. Mr Oppenheim replied that CMS and EPOS, Systems Management and MIS could not be said to be ready for integration into the solution. It was acknowledged as very important to complete the technical aspects of the solution and have them under change control, as soon as possible.

95/42 TIMESCALES, UPDATE ON COMPETITIVE POSITION AND CUSTOMER CONTACTS

Mr J Jones presented and there was a discussion. Points arising:

- a) The present timetable from POCL/BA showed the demonstration phase ending end December, the ITT issued in January and selection made in April. This compared with the original timetable with the demonstration phase ending end October, ITT issued mid November and selection in January. However Mr Jones said that even the current timetable with considerable slippage from the original might not be achievable. The selection date could move further by as much as 6 months. There were a variety of reasons for this as referred to in the reports of Mr Bennett and Mr Oppenheim.
- b) The strengths and weaknesses of the three potential suppliers positions were considered. We still believed we were well placed, but continued delay in the procurement would work to our disadvantage.

Mr Bennett

Mr Bennett will continue his discussions with POCL/BA and suggest that rather than effectively rewriting the SSR, through detailed contract schedules, they should use it as a baseline, drive the invitation to tender from it and negotiate contract schedules later when a supplier had been selected. Our strategy will be to try to have the ITT issued before Christmas with a selection of a preferred supplier early in Q1 to enable the contract negotiations to take place at the same time as discussions on the solution.

- c) The Board considered there would be considerable sympathy in the Government, especially H M Treasury for the Company's point of view that the procurement was dragging on too long but also because of POCL/BA's approach, we did not seem likely to have the opportunity to integrate into the solution as much capability in dealing with fraud as the original PFI concept would have allowed us to do. This was a particularly relevant consideration because the Government was making much of the savings achievable through reduction in fraud. The Government was facing an issue of confidence in the PFI process from the private sector and they may be responsive to suggestions. It was agreed Mr Jones would talk to Mr Swan of the Treasury and refer to contacts between David Hancock of Hambros and Mr Robson at the Treasury. Other contacts will continue.

Mr Bennett

- d) The current sales plan and actions being taken were noted.
- f) A short note on the benefits of the solution in tackling various kinds of fraud would be prepared by Mr Jones for the Board.

Mr Bennett

95/43 RISK REVIEW

The Board noted the Pathway top ten risks paper which had been circulated prior to the meeting.

95/44 FURTHER BUSINESS OPPORTUNITIES

Mr Oppenheim

Mr Oppenheim said a schedule had now been prepared by An Post showing the Post Offices etc. around the World which should be considered as sales prospects. Mr Reynolds mentioned India in particular. Mr Oppenheim said activity would be stepped up on this and it was agreed that a meeting would be held with An Post and Escher on the possibilities. Mr Todd said that the parties involved must also consider their view on whether they will bid for any of this business outside of the Pathway consortium. It was important that the views of ICL, Girobank, and De la Rue be taken into account by Mr Bennett and Mr Oppenheim before

Mr Oppenheim

discussions were held with Escher. The Chairman reminded the executives of the value of liaising with Embassies and High Commissions. As noted at the last meeting, he was ready to do this.

95/45 OPERATIONS DIRECTORY

The report by Mr Rowe was postponed until the next meeting.

95/46 DATES OF NEXT MEETINGS

Mr Bennett

The next meeting will be held on Wednesday, 1st November at 2.30pm in Feltham. This will be preceded by a Shareholders' meeting starting at 12.30pm (over lunch). Following the meeting there would be an opportunity for the Board and the Pathway management to mingle.

It was agreed the following meeting, 6th December 1995, would be held in Dublin. Mr Reynolds invited the Board to see the An Post solution in operation, have lunch, then the Board Meeting in the afternoon (a change of plan from a morning meeting).

Subsequent meetings would be held on 17th January 1996 at 2.30pm and 21st February 1996 at 2.30pm, at Feltham.

PATHWAY GROUP LIMITED

MEETING OF THE BOARD OF DIRECTORS

TO BE HELD ON

TUESDAY 3RD OCTOBER 1995

AT

ICL, FOREST ROAD, FELTHAM, MIDDLESEX TW13 7EJ

AT 10.30 A.M.

A G E N D A

1. Minutes of Meeting 8th September 1995
(Previously circulated)
2. Actions Arising
3. Managing Director's Report (Attached) J H Bennett
4. Finance Director's Report (Attached) A E Oppenheim
5. Timescales J H Bennett
6. Risk Review J H Bennett
7. Future Business Opportunities A E Oppenheim
8. Operations Directorate S Rowe
9. Update on Competitive Position and Customer Contacts J Jones
10. Any other business All
11. Date of Next Meeting
Wednesday, 1st November at 2.30pm in Feltham.

continued

The Board Meeting will be followed by a meeting (with working lunch) of Representatives of ICL, De la Rue and Girobank
12.30 - 1.30pm

Pathway Group Ltd

Board Meeting 3rd October 1995
Managing Director's Report

1. Introduction

The last four weeks have seen very slow progress on the Stage 3 plan. BA/POCL have found it increasingly difficult to meet their timescales for schedule production and release. Progress has slipped 2/3 weeks in 4 weeks with little confidence in future dates and their achievement.

Pathway has not been without its own concerns. Product descriptions have progressed only after intense and tiring effort; a number of key components for WINDEM are still outstanding; in short there is a sense of the procurement becoming bogged down.

2. Timescales

Meetings have taken place with Andrew Stott. He admits privately that on present plans the procurement is heading for a "quantum" delay of several months (2-5) rather than on "incremental" few weeks. It is also clear that pressure is mounting from both contracting parties for timely decision. BA are confident on their delivery of CAPS and want work on integration testing with the chosen service provider in mid-March 1996. POCL are increasingly impatient and want to get on with their ambitions to become a powerful UK retailer. Also the "memorandum of understanding" between BA and POCL is causing trouble in taking forward. In short something has to give. Either a new faster procurement with a tighter focus on PFI, or a cleaner separation between what BA and POCL want.

3. POCL Partnership

A first meeting has taken place with just POCL staff. This will now become a separate but increasingly important strand of activity running parallel to the procurement. Setting evaluation criteria is proving difficult but the message is clear. POCL want this as a major decision point in their input to the service provider selection.

4. BA/POCL Meetings

These have reduced as staff struggle with their schedules. No Negotiating Team meetings have taken place for several weeks.

Presentations to senior POCL managers and BA managers went reasonably well with plenty of questions. Also the demonstrations to the Post Office Senior Managers conference on 22nd September gave us a first chance to see IBM and Cardlink UK in action. IBM have nothing to show, and relied upon a promotional video. Cardlink have built a good looking front end demo, but it looks very thin. However they are spending serious money on model post-office and marketing collateral. The Pathway message of systems in use and working well today was well presented and received.

5. ALPS

Roll-out all but complete but marred by poor service support from ICL-SORBUS triggering off serious complaints from POCL. Issue now with MD ICL-SORBUS but may need to go higher. Work in hand to define and sell a new managed service contract.

6. Risks

In the short term the WINDEM risks centre around CMS, PMS and EPOS functionality. In the longer term we still have to address the Escher risks, and achieve acceptable self-sufficiency.

7. Organisation Development

The Programme Director role is now filled by Terry Austin on an initial 8 month contract. Terry joins after a 5 year assignment to Inland Revenue with project responsibility for Self Assessment. We now urgently need programme plans, resource plans, work breakdown schedules and full cost and timescales descriptions in place.

John Bennett

Pathway

M E M O

To: Pathway Board

From: Tony Oppenheim
FEL 01

Tel: GRO
ITD: GRO
Mobile: GRO

Date: 26th September 1995

Finance Director's report - September 1995 (second report)

Highlights

Good:

- * ALPS delivering very significant savings
- * Last week's Post Office demo confirmed we are still ahead
- * PD's issued: ITT's finally underway
- * Communications with suppliers improved
- * Bank competition between Toronto Dominion and Credit Suisse
- * First Escher 32 bit version counter software delivered/working
- * PMS demo system delivered on schedule (port of An Post system)
- * New agreements with Escher - EPOS and consultancy (pending)
- * Microsoft agreement pending - systems management
- * Oracle agreement pending - PMS and MIS
- * Programmes Director on board
- * Commercial Manager recruited

Not so good:

- * ALPS loose ends may erode quality image
- * Serious timescale slippage pending - not yet declared
- * Signs of dissent between POCL and BA
 - will the joint procurement survive? (Risk or opportunity?)
- * First two Schedules not firm / 5 day response time not 4 weeks
- * Charterhouse confirm intent to minimise PFI - lowest cost
- * POCL may go ahead with APT and TIP investments
- * Treasury still refusing to get involved - fraud savings
- * No progress with overseas joint marketing (at time of writing)
- * Gaps in service provider solution remain: some PD's below par
- * Pathway still has very limited knowledge of Riposte

Bid Budget and Timescales

The Bid Budget is described under separate cover.

The main issue is timescales related. Unofficially, all POCL/BA staff we talk to see a slip in dates along the following lines as inevitable:

- ITT issued: from Dec 22 to Jan/Feb
- Decision: from Feb to March/April
- Award: June?

As identified in John's report, this may be best case.

There will be a need to seek additional funding to continue the bid.

Customer Negotiations

There have been no further meetings of the CNT since the last Board. We have suggested agenda items worthy of consideration. They have not been ready to engage.

It is not yet clear whether the meeting we have requested for this week will happen.

After two weeks, we have not had a response to our proposals on how we might contain further slippage in timescales.

The PMS solution switch needs to be done formally by reference change control - effectively a re-submission of affected parts of the Proposal - not expected to be an issue.

An initial meeting has been held with POCL on "partnership": they seem genuinely keen to pursue this, albeit their agenda is none too clear. Meetings at high level have been proposed and we have responded positively with agenda proposals and a framework for discussion. However, dates remain to be fixed and are slipping against target.

If this does come off, it is clear that whatever evaluation criteria are adopted, POCL will have this component of value to consider whereas BA will not have an equivalent - another tension between the two parties.

Funding

As indicated above, competition for lead bank is centred on Credit Suisse and Toronto Dominion, either as joint lead or one or other.

The deciding factor may be pre-award fees: Credit Suisse are holding out for fees whereas Toronto Dominion appear to have dropped their similar demand.

The following have declared strong informed interest in being part of a syndicate:

- Bank of Scotland
- Merita Bank

ABN Amro and Bayerische Landesbank remain possibles.

On the customer front, Charterhouse have indicated strongly that they intend going for "minimum compliancy to qualify as a PFI". Minimum cost is emerging as the main driver. Fraud savings do not appear to register because Treasury are still standing back from the fray.

The steer is to limit risk transfer to an absolute minimum. However, this is at odds with an apparent lack of understanding of the exposure with respect to counter infrastructure investment if after say two years operation the system fails to size for volume growth. This is going to be a key item for the banks.

Supplier pricing

ITT's underway. Responses are due just in time to enable supplier selection and then a joint programme of customer schedule drafting and negotiation. With all the other activities, this process will however be very tight.

An experienced commercial manager with exposure to PFI has been brought in to oversee this work.

Girobank have also nominated a commercial manager to represent their interests on the other side of the boundary, which is useful.

Risk register

Progress made but much to do. An update will be presented at the Board meeting.

The Customer interface is good.

There is very high correlation between the customer perceived risks and those identified by Pathway.

We have had confirmation that the risks we identified on POCL/BA have been passed to their Schedule owners for consideration - but that does not constitute a commitment to include.

Market opportunity beyond POCL/BA

Discussions have, at time of writing, not moved forward pending resolution of immediate development priorities (now essentially done, subject to signature).

An Post are talking to Norway, Iceland, Hungary, Isle of Man and possibly others. All small so far.

Escher have had very early discussions with Canada and the US. Canada is believed to be considering putting benefits through post offices. US is rather different.

Australia is the origin of "Australis" and is already automated. Australis is believed to be the basis of the IBM solution which both IBM and Unisys proposed in different guises in Singapore - decision in favour of ICL/Escher/An Post (subject to contract).

South Africa have decided on a Cardlink-like system (Barclays).

France has recently started implementing a new system, which rules it out.

No knowledge yet about other European countries, except that the fit is not generally very good - no benefits content, may already be automated to a degree, language.

China and India are both believed to be looking for a solution of some kind. India may be a good fit, but difficult to crack. China is clearly a wild card.

Insurance

D&O for the non-executive directors (Willis Faber and Dumas) and Key Man (Berkeley Insurance - Hambros) are close to being finalised.

Auditors

Engaged. Two initial meetings held. One was on VAT structure, which is better understood now, with options defined. We will follow up with Girobank especially.

Bank Account

Girobank account opened and £100 credited.

Pathway staff terms and conditions - planning for award

To minimise transfer problems, we would ask that the Pension funds of all shareholder companies approve a resolution extending pension cover to those employees who will be transferring from the respective parent organisation - a Deed of Participation.

Staff

Graham Wingrove is on board and up-to-speed as Chief Accountant: Oracle ledger implementation October to December.

Warren Spencer has begun work on a dedicated basis as lawyer: focus on framework terms and conditions and schedule vetting.

Steve Reed will join by mid-October as Commercial Manager: focus on sub-contracts back-to-back.

Tony Oppenheim