

PATHWAY GROUP LIMITED

**MEETING OF THE BOARD OF DIRECTORS
TO BE HELD ON WEDNESDAY 21ST FEBRUARY 1996
AT**

PATHWAY, FOREST ROAD, FELTHAM, MIDDX

AT 10.00am - 12.30pm

A G E N D A



a 1. Minutes of Meeting 17 January 1996
10. (Previously circulated)

ac/n 2. Managing Director's Report J H Bennett
(Paper attached)

ab/rz 3. Financial Director's Report A E Oppenheim
(to follow)

4. Sales Review J A Jones to present

5. Programme Status Review T Austin to present

6. Risk Register M Bennett

7. Any Other Business

8. Date of Next Meeting:
To agree dates for the meetings in 1996.

Note: The Board Meeting will be followed by a meeting of
representatives of ICL, De La Rue and Girobank from
12.30pm - 2.30pm with lunch for those present.

MANAGING DIRECTORS REPORT
Board Meeting 21 February 1996

1. INTRODUCTION

The last four weeks has seen the workload on the procurement increase significantly. The customer remains determined to issue the ITT at the end of February, notwithstanding the fact that a lot of work has slipped and outstanding activities continue to pile up. No one is prepared to admit failure at this stage.

Equally importantly, there is a growing recognition that the requirements are still being defined at a very high level. Too high in fact for a safe contract to be awarded. Discussions have taken place to underpin the need for all functional requirements to be spelt out such that the winning service provider is able to enter into user acceptance tests which will be acceptable to the main sponsors. If this work is left until after Service Provider's selection then it is difficult to see how a binding contract could be entered into and accepted by either party. How this point is handled will be a critical issue over the next few weeks.

2. PROCUREMENT PROCESS

The requirement catalogue continues to grow and there remains a stubborn list of new ones being issued on a weekly basis. This activity is now many weeks behind the milestone plan.

Fresh sets of contractual clauses are issued as promised every Friday and although movement has been achieved the whole subject of financial guarantees and their structure remains top of the outstanding list. Close behind this is a the subject of fraud liability and reaching an acceptable position as to how the risk of this is shared across the people best able to handle it i.e. BA/POCL and the Service Provider. This causes disagreement between the sponsors themselves particularly with POCL being pressed into accepting elements of fraud risk which in the past they have substantially been protected from. There is a growing awareness that the structural weakness of this procurement is having two customers who see the world from quite different perspectives.

The Risk Register has been managed over the last few weeks with several risks being removed or reaching a point where they now go forward onto a final Risk Register. The two most significant risks are how we handle the Escher relationship (see below) and more recently how we resolve the most appropriate card technology for the benefit card system. We have proposed a simple form of smart card to be introduced from day one to remove risks which cannot be addressed by the more simple magnetic stripe card. However, this has been rejected out of hand by the customer. Our baseline is therefore still based upon a magnetic stripe card.

COMMERCIAL-IN-CONFIDENCE

Although the demonstrator phase is formally ended, we continue to have major events to run including focus groups for BA and POCL staff, major presentations to the Federation of Sub Post Masters and a Showcase Event in Dublin to all those Senior Managers who have not been to see the system or presentations so far. The overall assessment must be that we will continue to need a background demonstration activity using our model Post Office facilities probably all the way through till contract.

3. PATHWAY ORGANISATION

The changes introduced at the beginning of the year have worked well and as a result there is a clearer sense of responsibility and ownership as we begin to plan for the development, testing and implementation phases. We now have a milestone roll-out plan which will be non-compliant unless there is a greater sense of realism taken on board by the programme. This is a very sensitive area and one which we are endeavouring to handle.

4. PATHWAY SUPPLIERS

We have now appointed BT as the prime contractor for the ISDN network. Because of the uncompetitive nature of their regulated services they will be providing the network subcontracted to Synergis who substantially undercut BT standard tariffs. This has led to a unique contract whereby BT effectively have a responsibility to ensure that we stay close to benchmark prices in the marketplace.

BT together with Oracle are now principal subcontractors. Microsoft have come off the fence and strongly backing Pathway. In order to harmonise the supply side even better we now have in place monthly Supplier Forums which we shall use as a form of communication as well as an attempt to use their sales channels to get our message across to the broad BA/POCL audiences.

5. PARTNERSHIP DISCUSSIONS

Encouragingly these are still continuing alongside the main thrust of the procurement. As a result much more thought is now being given to the customer education campaign and the work done by McCann Erickson which is very impressive in terms of demographics and Post Office network coverage, is one which is scoring high points with the business managers in POCL. I feel we are making good progress with this group.

6. COMPETITION

The recent dreadful publicity on NIRS2 or Andersons cannot be doing their bid any good. I sense that IBM are a step two ahead of us at this stage, mainly because they have a clearer run on financial guarantees, they have gone firm on a watermark card system although this may yet cause some headaches later on and they have avoided areas of sensitive exposure like the current relationship issue we have with Escher.

COMMERCIAL-IN-CONFIDENCE

7. PROGRAMME PLANNING

We have begun the preparation for the European Development Centre (EDC) based in Feltham and are currently equipping this with terminals and staff to begin work in the first instance on EPOS. For this to be really effective it does need the whole hearted support of An Post and Escher and this is required urgently.

8. ALPS CONTRACT

ICL Sorbus have now taken the front line ICL responsibility for the safe running of the ALPS contract and have appointed a client manager to look after this. This is beginning to stabilise the basic support infrastructure and is making steady progress with a customer. The key outstanding issue remains the fragility of our support routes for ESNS which again leads us through to the support arrangements we need to have in place with Escher.

9. SUMMARY OF KEY POINTS

1. Escher Relationship
2. Establishment of the European Development Centre
3. Contractual Negotiations
4. Benefit Card Resolution
5. Fraud Liability Resolution
6. Issue of ITT on Time

John Bennett

COMMERCIAL-IN-CONFIDENCE