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Company Secret

ICL PLC

Minutes of the meeting of the Board of Directors

Held at 14.00 on Thursday 25th November 1999
26 Finsbury Square, London, EC2A 1SL

Present	Mr M Naruto	(Chairman)
	Sir Peter Bonfield	(Deputy Chairman)
	Mr T K Todd	(Chief Executive)
	Mr S Gillibrand	
	Mr H Kurokawa	
	Mr J J Ollila	
	Mr H Sakai	
	Mr T Sekizawa	
In attendance	Mr A Gibson	
	Mr R F Scott	(Secretary)
	Mr T Yurino	
	Mr Y Katsuya	
	Mr Y Sumida	
	Ms M-A van Ingen	(item 30)
	Mr A King	(item 31)
	Mr D Palk	(item 32)
	Mr A Rowley	(item 32)

The Committee welcomed Mr Sakai back to ICL.

Apologies for absence were received from Vicomte Davignon.

Action by: **99/27** **Minutes of previous meeting**

The Minutes of the meeting held on 21st July 1999 were approved as a correct record and signed by Sir Peter.

99/28 **Board Committees** **PLC/99/24**

Mr Todd confirmed Mr Gibson had been appointed Executive Director, Operations and Finance. Because of the importance of this role it was agreed he would join the ISC and accordingly the Board:

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RESOLVED

THAT Mr A Gibson be and he is hereby appointed a member of the ICL Investment and Strategy Committee.

The Board noted:

Mr D Teague had left the Executive Management Committee (EMC) on his move to the new Fujitsu-Siemens joint venture.

Mr W J Davison had left the EMC and would retire in 2000.

Mr T Vieth was retiring from ICL having left the EMC some time ago.

99/29 **Chief Executive's Report November 1999** **PLC/99/25**

Financial Report and Half Yearly Accounts **PLC/99/26**

Approval of Fujitsu Global Commitment Borrowing Line **PLC/99/28**

Amendment to Borrowing Authorities **PLC/99/29**

Half Yearly Preference Share Dividend **PLC/99/30**

Authorities for Banking and Treasury Transactions **PLC/99/36**

Mr Todd expanded on his report then Mr Gibson presented. Points noted:

a) Mr Todd said the management team was not happy with the operating loss during the first half year, despite some improvement between Q1 and Q2. ICL was working hard to deliver the £65m PbT budget for the full year by achieving £86m operating profit budget through improving trading profitability. Much was being done to improve the company's infrastructure and although this increased costs at present, costs should markedly fall on the completion of the programmes.

b) ICL Pathway was now making satisfactory progress. Mr Christou, Mr Bennett and the team were congratulated on reaching the milestones which enabled ICL to receive payment on the first invoice of £69m and submit and second invoice for £90m. There were however some difficult points to be resolved before roll-out could re-commence in January, but Mr Christou was now hopeful these could be resolved in time.

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c) Mr Todd referred to the press conference last week about ICL's prospect in electronic business which had generated good publicity.

d) Mr Todd and Mr Takaya had had a discussion on flotation matters and agreed that operational improvement in ICL's profits was number one priority. They would meet in February to discuss the way forward on this topic. It was likely the Board would be asked to consider flotation prospects in May.

e) Mr Gibson presented on trading performance and other financial matters, amplifying and extending his written report.

For the first half year revenue had only grown by 7.5%. However the Q2 performance had been significantly better than a slow Q1. Gross margin for the half year had been around 4% worse than last year. There had been a loss at the ongoing operating level of £17.6m at the half year. This was very much worse than budget and significantly worse than last year. With the help of profit from the sale of the remaining shares in Softbank in Poland, and write back of £10m of the provision taken last year on Pathway, following successful negotiations with sub-contractors, the half year had reached a small profit before tax, although this was still below budget and last year.

The Board noted Mr Gibson's explanations for the performance issues including that changing mix of revenues contributed to lower margins, and business difficulties in the Retail and Operational Services businesses in particular.

The Committee noted the changes in revenue growth and operating profit by industry, by horizontal business and by geography.

The figures shown for ICL's "go to market" areas showed Customer Relationship Management, Electronic Business and Applications as unprofitable in the first half year and profit coming from the IT Utility with, on this occasion a contribution from Pathway. Work continued on understanding the figures and increasing margins.

Mr Ollila praised ICL's abilities and approach in e-commerce. ICL had a track record and was "state of the art" in ability. Mr Todd referred to the investment going on in this area. On defence, Mr Todd explained that following ICL's successful CHOTS – Ministry of Defence desktop project, ICL felt it may have to review its presence in this market, depending on the terms of the CHOTS follow - on bid process, as our resources could, it was expected, be more profitability employed in e.g. e-commerce.

f) Mr Gibson referred to the forecast and budgeted Profit and Loss for the full year 1999/2000. Despite a significant improvement forecast in gross margin for the second half compared to the first, PbT for the full year was forecast at the relatively low figure of £35m which included a third quarter profit of £17m from a major contract (not yet signed) with EDS. There was thus still risk in this new PbT forecast which was itself £30m below the budget recently negotiated with Fujitsu.

Mr Gibson commented that he still felt there was risk in the aggressive revenue growth foreseen in Q4 and that there was also risk in the increased margins being forecast, whilst some action had been taken to support this being possible there was still some way to go. He also commented that whilst there was risk here there may also be opportunity in cost. The unpredictable nature of the Y2K influence on sales made it difficult to be certain.

Sir Peter pointed out that ongoing operating profit based on this latest forecast was only 1.6% of revenue.

g) Mr Gibson referred specifically to cash and borrowings including the good relations he was achieving with the company's bankers and new sources of liquidity for ICL. Borrowing in Euros rather than Sterling for some of the funds needed were reducing interest costs. Total forecast cashflow now for the year 1999/2000 was negative £74m - a considerable deterioration from the positive £100m budget previously produced for Fujitsu. Analysis was taking place to explain this situation and Mr Gibson felt that changes in ICL's business from a product business where cash could be obtained immediately on sale to, essentially, a people business with significant PFI contracts and payment over a longer period was the main contributing factor. Forecast net borrowings at the year end were £468m, according to the October forecast from the businesses.

h) Mr Gibson went on to explain that ICL's borrowings were limited by the net worth and gearing covenants agreed with the banks and by the limit in the Memorandum and Articles of Association. Based on the new forecast of £35m PbT the net worth covenant was predicted for 31st March 2000 to be £222m, below the minimum value of £225m in the banking agreements. The gearing covenant at 1.45 would be within the range acceptable to the banks. There was borrowing head room under the Articles of Association limit, assuming the proposed change to the Article referred to below, was approved. Mr Gibson said that directors and auditors could be expected to have concerns over whether ICL was a "going concern" and whether there was adequate liquidity for the company's business, based on the present situation. However ICL had been offered £75m from the new Fujitsu Global syndicated facility and this would improve the position significantly. Mr Todd said that although it was appropriate for these matters to be considered he fully intended ICL to exceed the £35m PbT forecast such that these concerns would not become "live".

i) Mr Todd and Mr Gibson referred to the proposal to go to the ICL PLC Board for amendments to the borrowing limits set out in the company's Articles of Association. This had been agreed at the last meeting of the Board in July but amendments had been made to the proposed shareholder resolution, in Tokyo, after the Board had agreed it, which were considered by specialised legal advice to be ineffective for the purpose ICL and Fujitsu were trying to achieve by amending the Articles. The newly proposed resolution in the Board papers incorporated clarificatory changes and the Board now agreed it, recommending the shareholder consider this proposal as soon as possible.

The Board agreed to enter the Fujitsu Global Commitment Borrowing Line and the necessary authority was signed by the Board (attached to these minutes).

On the Half Yearly Preference Share Dividend payment:

RESOLVED

a) THAT a net dividend of £3,921,614.09 exclusive of associated tax credit in respect of the period ending 3 January 2000 on the Company's 83,655,600 9.15% net Cumulative Convertible Redeemable Preference shares be declared on 4 January 2000 to the holders of the said shares registered at the close of business on 19 December 1999. Such dividend will be paid on 4 January 2000.

b) THAT a net dividend of £3,921,614.09 exclusive of associated tax credit in respect of the period ending 3 January 2000 on the Company's 83,655,600 9.15% net Cumulative Redeemable Preference shares be declared on 4 January 2000 to the holders of the said shares registered at the close of business on 19 December 1999. Such dividend will be paid on 4 January 2000.

The Board agreed to amend the Banking and Financial Authority resolutions passed previously in 1996 to amend the titles of several of the signatories and

RESOLVED

To insert in the authority resolutions the titles of those individuals which have changed since the 1996 resolution was passed – namely (Mr Gibson) Operations and Finance Director and (Ms Faull) Director, Group Tax and Treasury in place of the Finance and Business Planning Director and the Group Treasurer.

The un-audited Profit and Loss Account and Balance Sheet for the half year ended 30th September 1999, attached to Mr Gibson's paper were approved and Mr Todd was authorised to sign them on behalf of the Board.

99/30 Presentation on ICL Multi-Vendor Computers and Key Customers PLC/99/31

Ms van Ingen explained the progress of Multi Vendor Computers (MCD). For 1999/2000 MCD's revenue was forecast to be 27% of the ICL total. PbT was forecast at £19m but the business was working hard to produce £25.6m, as asked by the centre. The revenue forecast at around £850m for the year continued a strong growth record (from £520m last year) as did the profit forecast, which compared to £12m last year. PbT would be just over 2% of revenue and the goal was 3%. MCD hoped to persuade many more of its customers to trade with it electronically.

Ms van Ingen then referred to the opportunities available now that ICL had taken a group wide approach to its customer base. There were 500 strategic customers identified and she was developing ICL's approach - a dedicated sales channel for the next group, key customers.

99/31 Presentation on Retail Systems Division PLC/99/32

Mr King explained progress with ICL Retail including recent successes such as the completion of the roll-out of 320 Marks and Spencer's stores with Globalstore. Customer satisfaction ratings had improved over the last 2-3 years.

For the year 1999/2000 revenue was expected at £450m operating loss £1.5m and loss before tax of £5m.

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A substantial series of actions was underway to improve profit and re-align the business including a massive reduction in staff such that the division would retain only people for industry specific marketing and systems architects. Other resources would be bought in from elsewhere in ICL, where it was hoped, when not used by Retail, they would be used elsewhere in the Group.

Globalstore and the other software products were considered very strong and would be exploited. However all new development of the software would be specifically paid for by customers. Mr King's team were making sure Fujitsu colleagues were aligned with Retail's plans.

99/32 Contingency Planning – Year 2000 PLC/99/33

Mr Rowley, with Mr Palk (who was responsible for Y2K contingency planning on behalf of the management team) explained the situation.

From the overall Y2K Compliance Programme Summary, there were still some projects to be completed before the year end. 41 were still considered "at risk" but were being progressed. Contingency planning, including virus protection and communications to employees was explained. Staff Health and Safety considerations during the period was a principal objective and early warning (of millennium effects in Australia, Japan) was being arranged. The Board expressed satisfaction with the work done and the plans.

99/33 UK Lottery Re-bid

Mr Todd said that Camelot was preparing to re-bid, early next year for the UK lottery licence. Camelot did not yet know what competition it would face. Corporate and personal declarations similar to the previous ones would be required from ICL and its shareholders.

99/34 Acquisitions and Divestments and Major Contracts

Mr Todd referred to several planned divestments. The largest was the possibility of outsourcing the provision of spares for ICL Operations especially Operational Services Division. Potential partners were interested in this and ICL hoped a premium could be obtained on the business as we might lead the market on something which would become standard. However we would have to buy spares from the new organisation. Other divestments mentioned were sale of the remaining shares in Softbank in Poland, and the US Repair business. Potential transactions included sale of the MAX and Kainos investments. [illegible]

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Most of the present major contract successes and possibilities had been mentioned in Mr Todd's report but we were discussing possibilities with Centrica and we had won an outsourcing contract worth £50m with the UK company GKN.

99/35 Market Update **PLC/99/34**

The update was noted.

99/36 Documents signed and sealed, and Board Committee Minutes **PLC/99/35a/35b**

The signing of the documents dated 1st July to 31st October 1999 inclusive set out in the Register of Documents signed Under Hand.

The sealing of the documents numbered 76514 to 77455, between 1st July to 31st October 1999 inclusive set out in the Register of Documents Sealed.

The Minutes of the Pension Policy Committee meeting held on 16th July were noted.

99/37 Dates of meetings in year 2000

24 February
10 May
19 July
30 November

99/38 Event at the Dorchester Hotel

In the evening there would be a major dinner for ICL customers and friends of Fujitsu and ICL, hosted by Mr Naruto with Mr Sekizawa, Mr Todd, Sir Peter and other members of the Board present.

Note: The Board are reminded that under the UK Companies Act procedure all Directors have given notification of the other interests (for example other directorships) which they have, so that ICL and its Board are aware that Directors are "interested" in a contract between ICL and those other interests. As well as Fujitsu the interests include BT (Sir Peter) and Nokia (Mr Ollila).

GRO 2.00