To: Paul Williams

ci David Sibbick CGBPS

From: David Harris
CII5a1
GRO BPR
GRO

Mr Harris
pl kd
draft to 1BB
PW 22/1

22 January 1999

ANDREW FRASER'S VISIT TO JAPAN

Gerry Moran's minute to you of 15 January refers.

Briefing for Mr. Fraser's meeting with Michio Naruto of Fujitsu:

Mr. Fraser will be meeting Michio Naruto on 29 January. CII5a1's prime interest in Fujitsu lies in its ownership of ICL plc, the UK-based IT systems and services company. Mr Naruto is Fujitsu's board member with responsibility for ICL and Fujitsu's semi-conductor interests in the UK.

ICL is Fujitsu's main services operation outside Japan,and ICL's current view is that Fujitsu needs non-Japanese outlets for its products because of the current Asian financial crisis. ICL's performance is therefore highly important to the group. In general, Fujitsu is more interested in ICL's strategic planning and the development of its business rather than its pure financial performance, and adopts a hands-off approach.

ICL is limbering up for flotation by 2000; Michio Naruto, an executive vice chairman and full-time board member at Fujitsu and ICL's first Japanese chairman, is seen as pivotal in this. Naruto was a prime mover behind Fujitsu's investment in 1989, when it acquired 80% of ICL (subsequently increased to 100%).

Points to make:

- By how much does Fujitsu intend to reduce its stake in ICL after flotation in 2000, given the current economic situation in Asia?

- What will be the effect on the commercial agreements and joint development programmes that exist between Fujitsu and ICL?

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Background:

Working relationship between Fujitsu & ICL

Although Fujitsu owns 100% of ICL's shares, the two companies are run as separate entities, basically to protect share values. There is however a 'web' of commercial agreements between the two companies; Peter Bonfield (ICL's former CEO), set up an exchange programme such that every year, engineers are seconded between Europe and Japan to learn about each other's work, spread best practice etc.

The two companies also work together in the development of certain technologies, in particular multi-media. ICL has long been developing mainframes, but uses Fujitsu technology for the central processing units (CPUs).

Fujitsu has many other business interests, e.g. semi-conductors & telecoms, but these areas are entirely separate from ICL. It is intended that when ICL floats in 2000, Fujitsu's shareholding in ICL will reduce, but still remain significant.

To be aware:

ICL Horizon project

The path of the PFI deal relating to the automation of the Post Office (referred to either as the ICL Horizon project or the Benefits Agency / Post Office Counters Ltd. (BA/POCL) project) continues to be somewhat rocky, and could conceivably have an impact on Fujitsu's position in the UK.

CII Directorate does not lead on this issue, but it is almost certain to arise owing to its prominence in the Autumn visit to Naruto by Mr. McCartney. At this meeting, Naruto made plain the potential adverse consequences for both ICL and Fujitsu's other UK interests if the project were to fail. An up-to-date report of the situation may be obtained from David Sibbick of CGBPS Directorate.

I attach company profiles on both ICL and Fujitsu.

GRO

David Harris
Communication & Information Industries Directorate