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Company Secret

ICL PLC

Minutes of the meeting of the Board of Directors

Held at 13.30 am on Wednesday 1st August 2001
At Fujitsu Limited, 1-1 Kamikodanaka 4-Chome,
Nakahara-Ku, Kawasaki 211-8588, Japan

Present	Mr M Naruto	(Chairman)
	Mr N Akikusa	
	Mr R Christou	(Chief Executive)
	Vicomte Davignon	
	Mr Y Hirose	
	Mr H Kurokawa	
	Mr H B Thompson	
	Mr S Gillibrand	
In attendance	Mr R F Scott	(Secretary)
	Mr D Courtley	
	Mr P Earl	
	Mr T Okada	
	Mr H Hirata	
	Mr Y Katsuya	
	Mr K Onuma	
	Mr T Matsuoka	
	Mr M Stares	(Item 44)

The Chairman welcomed the Board and attendees to Fujitsu and to Japan. In the morning of the day of the meeting there had been a visit to "net Community" to see Fujitsu's approach to the Japanese government's plans for internet related activities including government to business and government to citizens initiatives. The Fujitsu laboratories had been visited and state of the art technology seen, including broadband and mobile developments.

Action by:

01/32 Minutes of Previous Meeting

The minutes of the Board meeting held on 9th May 2001 were approved as a correct record and signed by the Chairman.

01/33 Committee Membership

The Chairman proposed new members for the Investment and Strategy Committee, and this was approved by the Board. Accordingly

RESOLVED

THAT D Courtley, P Earl and H Hirata be and are hereby appointed members of the Investment and Strategy

Committee.

01/34 **Chief Executive's Report July 2001** PLC/01/15a&b

Mr Christou gave a presentation and referred to items in his written report, followed by questions and discussion. Points noted:

a) The European IT market had worsened. Factors contributing to this included that there had been no boost to business comparable to Y2K, the US downturn, un-profitability of pure e-Commerce projects, difficulties of the "Telcos" (although Telcos were not large customers of ICL) and no exciting new technologies. Dot com companies and e-consultancy companies had had a particularly difficult time. Mr Thompson commented that consultancy companies usually prospered when things were good and when things were bad as they benefited from strains in the market place. Mr Christou agreed with this saying that he felt this particularly applied to "high end" activities pursued by ICL and others including DMR who he believed were doing reasonably well in the deepening economic gloom.

Mr Christou went on to say that now most of the IT sector was affected although established companies with a strong customer base were faring better whether in e-business or in the more established IT areas. ICL hoped to be one of the winners, with a strong base of established customers and a good presence in public sector IT and outsourcing/managed services. Nevertheless the market was generally expected to weaken further - the annual growth of European IT companies had slowed to below 10% and cost cutting continued to be essential.

b) ICL would concentrate on infrastructure services, de-emphasise pure e-business activities but sell e-business offerings and systems integration as part of large infrastructure projects, exploit our position in the public sector, sell more to existing customers and search for compelling new technologies.

In answer to Mr Thompson, Mr Christou explained that ICL's core competence was management of the infrastructure and systems integration of the underlying platforms. Further cooperation with DMR, who had significant consultancy expertise and with other Fujitsu businesses would be likely in the future as ICL concentrated on its core.

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c) Mr Christou referred to divisional performance. On infrastructure services, revenue was on budget but profit impacted by deferral of the EDS software commutation/technology refresh deal. Mr Christou and Mr Courtley would push the division to over achieve on budget to meet deficiencies elsewhere.

Multivendor Computing were suffering, especially with falls in the Sun distribution business. However they were positive about their action plan to achieve budget operating profit for the full year. Projects and professional services were around budget though loss marking in the first half. On Large Projects performance was on budget GRO and there were plans to obtain additional business with the customers. Negotiations had begun for a five year extension to the Pathway contract.

Invia was having a difficult time and measures such as stopping e-business in Scandinavia were being taken. Discussion took place subsequently on the value of Invia. Mr Christou would examine the possibility of a joint venture of Invia but only on the basis that Fujitsu/ICL would have the majority.

EMEA (which included France) was ICL's problem business with infrastructure businesses across Europe suffering from e.g. lack of critical mass set against high cost bases. Also e-Business sales were not materialising and development spend in this area was being cut back. Mr Courtley would be critically examining the EMEA plans as he felt more ruthlessness was needed. Africa suffered from depressed market conditions including lack of government businesses. An action plan was in place. KnowledgePool, not now saleable in present circumstance had not been included in this year's budget but was to be brought back to break-even for the year. HQ costs had been significantly reduced but an allocation to the businesses demonstrated (through the size in reductions to business profitability) that they were still too high. Headcount was falling within the constraints of redundancy spend.

d) Mr Christou referred to progress with three groups of measurement now put in place to monitor the businesses: headcount, sales productivity and customer satisfaction. Mr Thompson referred to the distortions of a headcount freeze – as in place at ICL at present – good people who left could not always be adequately replaced by those who were surplus in other parts of the organisation. ICL had taken this point on board and Mr Courtley said that limited recruitment might be allowed in critical areas such as Infrastructure Services as prospects improved. Mr Gillibrand asked the size of the contractor workforce. This was at present around two thousand people and this was felt to be a manageable number in regard to the company's activities. Mr Akikusa gave his view that in the past ICL had too many Headquarters staff compared to revenue earners. Mr Christou agreed and also said that there were too many "middle managers." Action would be taken within the constraints on restructuring spend available, e.g. through performance appraisals and other means, to reduce.

e) Mr Christou concluded by saying that despite the market, ICL's strategy was right and with hard work and nerve, we would succeed. The Chairman commented that pure e-Business projects had not been a success at ICL but that he agreed with Mr Christou that e-business/internet related offerings would be a necessary part of ICL's core infrastructure and systems integration activity.

Mr Christou

The Chairman asked Mr Christou and Mr Courtley to meet as many customers as possible before the next Board meeting and report their views on ICL to the Board. Mr Akikusa added that this should be an opportunity to seek more revenue and to find whether ICL's people were serving the customers properly. Unsatisfactory performers should be exited.

Vicomte Davignon said as a result of this exercise the Board would in October understand the situation better. ICL should also do some work on the opportunities for its people which would exist in the future as the other side of the headcount reduction activity taking place. This should be within the context of Fujitsu's global strategy and the possibilities for opportunities within this. Vicomte Davignon felt that these items could be dealt with as an informal free discussion at the Board.

01/35 **Financial Performance** **PLC/01/16a&b**

Mr Earl gave a presentation on the quarter 1 results and the first half year forecast. The full financial performance commentary (paper b) was noted.

a) In Q1, performance had been disappointing with revenue 8.6% below budget and operating loss of £14.7m against budget £0.2m. Gross margins were under pressure. Free cash-flow had been in line with budget. Detailed management plans were in place in all divisions to improve Q2 and the full year result.

b) Allocation of HQ costs (still acknowledged to be too high and subject of further action) to the ICL businesses showed that only two – Infrastructure Services and Large Projects (which were mainly in Infrastructure contracts also) were profitable.

c) The forecast for the first half year showed revenue 5.9% below budget and an operating loss of £16.4m against budgeted profit of £2.2m. Action plans were in place to get closer to budget. Pre-tax loss of £38.2m was better than £49.2m budgeted but only because of deferral of French re-structuring spend.

d) Cash-flow for the first half year (£200.8m) was better than budget of (£220.2m) – mainly due to deferred rationalisation spend in France. Shareholder funds forecast for 30 September 2001 were £193.4m compared with £225m needed in 31 March 2002 to meet the bank covenants. Mr Earl said that ICL would be working on actions to deal with this, which might include disposal of non-core activities, and discussing with Fujitsu the nature of their support to ICL.

e) The Chairman noted that performance was bad, covering revenue profit and cash-flow. He appreciated that ICL was struggling in the current market conditions and he asked the executives to make the company stable, balanced and going in the right direction for the future. He expressed high hopes for Mr Courtley's appointment. The Chairman went to acknowledge that it would not be possible to sell KnowledgePool at the moment mainly because of problems in the IT sector and he referred to the brand change, to structural developments and the global perspective as ICL fitted within the global brand and global strategy of Fujitsu. He noted that discussions were taking place with DMR.

Mr Akikusa referred to the proposed improvements in revenue and operating profit in particular from quarter one to quarter two as forecast by ICL. He said that it was very important for Fujitsu to understand the level of confidence ICL had that this improvement would happen. Mr Earl referred to the work done in ICL on the action plans for each division and the downward trend in HQ costs. It was also noted that ICL had significant sales opportunities listed and being monitored and cost reductions underway. Mr Earl did however mention that the EMEA forecast did not give complete confidence and further investigations were taking place in this over the next two weeks. Mr Akikusa said that if ICL was not able to hit its objectives there would be

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significant impacts on Fujitsu and on its reporting and accounts. He asked specifically that ICL meet the first half year forecast, come what may.

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01/44 **France Recovery Plan** PLC/01/19

Mr Christou said the decision had been taken at the last meeting to produce a plan which would seek to show how the French operation could continue on the basis of a turn-round in its results. Mr Stares, in whom Mr Christou expressed confidence, had been appointed to this task and had given it his full attention for some time.

Mr Stares then made a presentation. Points noted:

He said that ICL France had made losses for many years and in the last ten, a total of £100m. It had been badly managed, had no vision and no direction. His baseline for the plan had been that there was no fundamental reason why ICL should not make profits in France – the business had a number of large Infrastructure projects like other ICL operations (where they were managed successfully).

The objective of the plan over the next two years was to transform the business and move into profit. It involved re-organisation of the business and elimination of elements which were loss making of non-core. Headcount would be reduced.

The presentation looked at the French market – there were no fundamental factors about France which meant ICL could not trade profitably there. The presentation divided the France business, identified the major issues, the basis of the recovery plan and asked for approval. Part of the approval required

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would be re-capitalisation of the French company for which a separate paper could be provided to the Investment and Strategy Committee, re-capitalisation being necessary for several reason including improvement of employee morale and avoidance of any moves to bankrupt the company (which was insolvent at present). Mr Stares emphasised that the plan would reduce revenue in ICL France, but to profitable core activities, numbers of people would be reduced particularly outsourcing of the field engineering/mobile workforce and there would be a focus on major contracts within IT Infrastructure as the core activity. Mr Stares was thanked by the Board for his excellent presentation and his detailed analysis of the French situation.

It was noted that the business would continue to lose around £12m per annum if nothing was done and that the estimated costs of an exit from France (which would be in the form of the sale or transfer of the business to another undertaking which would either attempt a reconstruction or a run down) was £60m. If the plan went ahead and was successful then the cost required in the period to the end of 31 March 2002 including reconstruction costs and trading losses was £25m, followed by further costs subsequently as the French company, it was hoped, moved to break-even then into profit.

Mr Christou

Mr Christou said that he would ascertain whether full legal advice had been taken on the relevant issues including whether the ICL France company was insolvent, there was a risk of a third party putting the company into bankruptcy or action or penalties under the law.

The Board discussed the proposal and the ICL France situation. In regard to the series of losses over many years, the point was raised that remedial action had been tried frequently and had been unsuccessful. The executives agreed, although it was noted that in recent years at least the business had been supervised in a streamed or fragmented way by several UK based individuals usually responsible for various streams or parts of the ICL business. There had not been a coordinated plan like the present for overall improvement. Of course there had been management failures, both within and outside France and one of the requirements of the plan would be a new "PDG" to implement recovery in the country.

It was pointed out that the plan represented considerably less cost than the exit charge of around £60m, but against this there were risks in the plan including in particular whether we could grow revenue as predicted through IT Infrastructure Services and focusing on the large customers. Also whether the outsource of the field/mobile engineers would be achieved on time at the cost stated. Other issues included the extent to which costs could be cut (this had always been very difficult in France) and employee morale/industrial action etc. Mr Stares referred to other matters such as poor IT systems, lack of management depth and the "Logicom" cross-charge by ICL for spares (which as an assistance to the recovery plan could be allocated elsewhere in the ICL management accounts). Overall however the ICL Executives believed that achievement of the plan was possible and recommended it.

In discussion, directors expressed significant misgivings over the situation, whether the plan could be achieved and even if we did achieve it, would it be worth the considerable resources and effort and the risks which would have to be run including the risk of significant failure and as yet un-quantifiable provisions going to the ICL and Fujitsu accounts? It was also pointed out that for a UK company a proposition of this nature might be achievable within the UK but France could often bring particular difficulties to foreign companies operating there. The situation was seen as extremely difficult.

After further discussion the consensus of the Board was that the recovery plan should not continue and that there would be an exit from France. However a final decision was not taken and it was agreed that during August there would be a final review (the Investment and Strategy Committee had discussed the matter and specified at some length the questions to be answered in this review).

01/38 **ICL Brand Migration** **PLC/01/24**

It was noted that an announcement was likely from Fujitsu during August and that changes would be implemented in ICL on 1 April 2002. Working parties, including one from ICL, were preparing information for Fujitsu for the August announcement. Mr Thompson commented that when he had been addressing ICL managers at a millennium event there had been some concern that the brand change was taking too long and should proceed more quickly. It was noted that Fujitsu were working on this and the August announcement would be made as soon as possible.

01/39 **Quarterly Manpower Report** **PLC/01/21**

The paper was noted.

01/40 **KnowledgePool** **PLC/01/23**

The paper was noted and it was accepted that there would be no disposal for the immediate future.

01/41 **Acquisitions and Divestments** **PLC/01/22**

The paper was noted.

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01/42 **Change of Auditors** PLC/01/20

It was reported that PWC having resigned, KPMG had been duly appointed as auditors for ICL PLC and the major subsidiaries. The remaining subsidiary companies would make the change at the appropriate time, usually at the time of approval of the 2000/01 accounts.

01/43 **Matters from Previous Audit Committee** PLC/01/25,16c

The Board noted the papers prepared to answer matters arising from the last meeting of the Audit Committee.

01/44 **Documents Signed and Sealed** PLC/01/26

The Board approved:

Signing of the documents dated 11 April 2001 to 4 July 2001 inclusive set out in the Register of Documents signed Under Hand.

The Sealing of documents 77700 to 77704 between 11 April 2001 to 4 July 2001 inclusive set out in the Register of Documents Sealed.

01/45 **Minutes of Audit Committee 9 May 2001 and of the Pensions Policy Committee 17 July 2001**

The Board noted and approved the minutes.

01/46 **Dates of Next Meeting in 2001**

31 October 2001

At the close of the meeting, Mr Thompson took the opportunity on behalf of the Board and UK attendees to thank Mr Akikusa and Fujitsu colleagues for the kind invitation to Japan for the excellent programme of events arranged, and for their personal attention during a busy time for Fujitsu.