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**Company Secret**

**ICL PLC**
**International Computers Limited**
**ICL Global Investments Limited**

**Minutes of the Meeting of the ICL Investment & Strategy Committee**

Held at 1.00 pm on Wednesday 6th February 2002
At 26 Finsbury Square, London, EC2A 1SL

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| Present | Mr R Christou | (Chairman) |
| | Mr N Akikusa | |
| | Mr M Naruto | |
| | Mr D Courtley | |
| | Mr P Earl | |
| | Mr H Hirata | |
| | Mr Y Hirose | |
| | Mr H Kurokawa | |
| | Mr T Yurino | |
| In attendance | Mr R F Scott | (Secretary) |
| | Mr Y Katsuya | |
| | Mr K Onuma | |
| | Mr T Okada | |
| | Mr H Kodama | |
| | Mr K Tanaka | |
| | Mr Y Sumida | |
| | Mr R Leek | |
| | Mr P Lush | |
| | Mr J H Bennett | (Item 9) |

Mr Christou welcomed Mr Adachi, Mr Leek and Mr Lush to their first meeting of the ISC.

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**Action by:** **02/01** **Minutes of Previous Meeting**

The minutes of the meeting held on 30th October 2001 were approved as a correct record and signed by Mr Christou.

**02/02** **Chief Executive's Report – February 2001** **PLC/02/01**

Mr Christou commended his report to the meeting and made some additional remarks. The UK economy appeared to be weathering world economic difficulties more successfully than those on continental Europe. It was hoped that IT services sector growth might begin again within the next nine months and that ICL, to be Fujitsu Services from 1st April, would be able to benefit early from any up-turn as a result of the significant cost reductions we had achieved through re-structuring. ICL had made an operating profit in the month of December

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although Mr Christou said he was disappointed with the forecast for the full year and he and Mr Courtley were working to improve it. Re-branding of ICL as Fujitsu Services and the new customer focussed organisation (see minute 06 below) appeared to be what the customers wanted.

Mr Christou referred to three significant concerns – first to get enough capital to complete the re-structuring programme mentioned at the last ISC and Board meetings and then to invest to make the business grow – second, issues about EMEA and third, the amount of risk in the Mid-Term Plan which particularly centred on the need to retain the cost savings from the restructuring but also to grow revenue, all whilst managing a significant expected decline next year in VME sales.

ICL would continue to manage the French operation and Mr Christou said that signs were more encouraging that break-even could be achieved in the medium term. On EMEA, the country operations would be divided into two sections – strategic in which ICL would continue to do business for the long term, and secondly a list in which ICL would close or sell. KnowledgePool and the African operations were also listed for disposal as soon as practicable. There were a significant number of buildings where ICL had vacant space and ICL needed to work out an approach to try to eliminate this cost.

In conclusion Mr Christou said that business at present was very hard for ICL and managers were being pressured to improve operating profit. Morale was, he believed, holding up with staff appreciating the firm action being taken on re-structuring and re-organisation.

In answer to Mr Naruto, Mr Christou said it did not appear possible at present to achieve a merger of Invia with a suitable partner so that ICL/Fujitsu would keep a majority. There were possibilities that the minority shareholders shares could be bought back (at a lower price than ICL had obtained for them) and that the Scandinavian operations, not well managed by the Invia team, could also be brought back into ICL. Mr Christou was proceeding cautiously with the Invia Board and minority shareholders on these issues and Mr Kurokawa referred to Fujitsu's interest in the moves. Mr Christou, Mr Courtley and Mr Kurokawa would discuss this. The next Invia Board meeting would begin to discuss the topics. Mr Lush was arranging for a paper to be prepared on the background to the original sale of the minority shares.

**Mr Christou**

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**02/03 Financial Performance PLC/02/02**

Mr Earl reported and the following points were noted:

a) Revenue for the period to end December was £1,577m, slightly less than forecast and the second half budget and significantly less than last year (by 10.5%). The full year revenue forecast was £2,186m, 9.6% less than last year.

b) The operating loss for the period to end December was £17.1m and the loss before tax, £48.8m. The full year forecast was for break-even at the operating level, compared to the October Board meeting forecast of profit of £13.7m. Branding costs had been held at £3.5m, and amongst other items, rationalisation spend in the full year would be around £110m. In all, loss before tax for the year was forecast at £133.4m, slightly worse than the October Board meeting forecast and the second half budget, but (because of the rationalisation spend) significantly worse than last year's loss before tax of £56.6m.

c) Mr Earl then explained performance in more detail. Amongst other matters he showed that after allocating the costs of the headquarters across the divisions, only Infrastructure Services and Large Projects would be profitable for the full year. The detailed divisional figures were noted.

d) Cash flow continued to deteriorate, due mainly to losses, working capital requirements of large projects and restructuring expense. On the balance sheet, net borrowings at the year end were forecast at 31st march 2002 at £378.5m and shareholders' funds at £80.7m. These were below the bank covenant levels and would be referred to later in the meeting.

e) Mr Courtley commented on the operational performance, saying that it was generally disappointing and mentioning EMEA (where the effect of the economic conditions in most countries were unhelpful) and in Africa where there were additional problems. However he and Mr Christou were determined to improve the year-end out-turn especially as regards the ISD and P&PS businesses.

**02/04 Mid-Term Plan PLC/02/03**

Mr Christou took the ISC through the slides in the papers, emphasising amongst other matters that ICL as Fujitsu Services was in a business area where estimated growth was expected to be significantly more than in hardware,

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that ICL would as an IT services company design, build, operate and manage IT Infrastructure and not invest in propriety software or bespoke software development (with the exception of VME, still a very important part of ICL's business but set to decline significantly next year, and retail software, for example Global Store and ISS 400).

He referred to the current organisation and strategic direction (Mr Courtley would explain the organisation changes in more detail later in the meeting). On Multivendor Computing, there were several reasons why a disposal was probably the best way forward. These included the low margin business model, which differed from the rest of ICL and also the possibility that trends in the market place might move against it such that it was "a wasting asset". Mr Akikusa added that the business should be disposed of reasonably quickly, emphasising the cash-flow effects of keeping it. Mr Christou said that as soon as the year had finished he would turn his attention to this and would talk to the appointed advisors, Morgan Stanley.

Mr Christou continued, referring to the removal of multiple headquarters in the centre and in the divisions and other aspects of the "de-layering" of the organisation which, along with the other organisation changes, would greatly improve customer focus and sales growth. It was intended to spend £65m in the UK in the final quarter of the year to remove approximately 1,400 people (by voluntary and involuntary redundancy) who on the whole were of higher cost and with out-dated skill sets. Mr Leek added that in addition some 800 individuals would go to DMR/Fujitsu Consulting so by the end of March 2002 ICL's headcount would come down from around 19,000 by approximately 2000 people. Mr Christou added his aim was that ICL should have around 15,000 employees as he felt that was the right figure for the business going forward. Therefore further re-structuring action, particularly outside the UK, was advisable.

Mr Earl referred to the financial projections in the Mid-Term Plan and it was noted that revenue growth from 2001/02 to 2002/03 was expected to be 5.2% (which, if achieved, would convert ICL's loss before tax of around £130m in the present year to a profit of around £20m next year). Mr Hirose questioned whether ICL could achieve this and Mr Christou and Mr Courtley agreed that it was a challenge. However it was thought the market would grow by at least this amount and that if ICL could manage the decline in VME revenues, retain the significant savings made by re-structuring and achieve overall revenue growth, all at the same time, then it would be possible. Mr Akikusa emphasised the importance to ICL and Fujitsu of

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achieving this. It was noted that if we could not achieve it, further falls in headcount would be needed. Mr Courtley added that ICL would need further capital to grow.

Mr Akikusa referred to Fujitsu's difficulties with the stock market. He said that analysts appeared to conclude that ICL was Fujitsu's main problem area as they could not see with any certainty what was happening within our business. He emphasised that if an investment of a further £160m in equity was to be made, Fujitsu would have to be sure that a significant return could be achieved on it. On no account should the advantage of the £110m re-structuring fund allowed by Fujitsu be wasted. Mr Adachi added that ICL's plan would be again reviewed here and there would be presentations in Tokyo at the end of February. Mr Akikusa referred to past difficulties in ICL on the profit and loss account mainly, he believed from HR costs and purchasing ineffectiveness. There was further explanations of ICL's improved attention to HR and Mr Christou and Mr Lush referred to new monitoring of the purchasing effort.

The full pack of Mid-Term Plan financials was noted by the ISC.

**02/05 ICL PLC Capital Injection at 31 March 2002 PLC/02/12**

The paper set out that at 31st March shareholders funds were expected to be £80.7m. The existing bank facilities contained covenants that ICL's shareholders' funds at that point must exceed £225m and gearing (which was net borrowings divided by shareholders' funds) must be less than 1.5 times. Consequently ICL believed it had to make a case to its shareholder, Fujitsu, for an increase equity investment in ICL prior to 31st March 2002 by around £160m. Mr Christou and Mr Earl would speak to Mr Kurokawa and Mr Kodama to progress this matter.

**02/06 New Organisation from 1st April PLC/02/04**

At Mr Christou's request, Mr Courtley explained the new organisation structure emphasising the objectives, including a simpler integrated organisation with clearly accountable roles, revitalised sales focus and emphasis on growth, improved customer focus and re-energising and motivating the company's employees. In particular there would in future be customer facing business units with P&L accountability and including sales, account and programme management. There would be separate units aligned and managed horizontally for core services including customer dedicated service-delivery and shared capabilities such as data-centres and call centres. Much of the headquarters cost would be eliminated from HQ and

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the divisions/business units. Mr Courtley explained that activity in EMEA would focus on principal countries; France, Germany, Netherlands, Italy, Belgium, Portugal, Republic of Ireland, and Switzerland (including Austrian branch) for retail only (although at Mr Akikusa's request Portugal would be re-considered). He concluded by mentioning that the sales force, at present numbering about four hundred would be reduced significantly to perhaps one hundred who would be based in the customer focused business units and managed to aggressive targets.

**Mr Christou**

The ISC discussed the new organisation. In answer to Mr Hirose it was emphasised that headcount would continue to be very carefully controlled within ICL, with recruitment centralised - each business unit would not be able to go its own way. Mr Hirata emphasised the importance of cost control and improving productivity in the service delivery areas and Mr Courtley confirmed this was one of his main priorities. Mr Christou, Mr Courtley and Mr Leek emphasised the care presently being taken with communication (including meetings of groups of managers and employees and email communications)

Mr Courtley emphasised that he thought this organisation and our simplified offerings would allow ICL to do more with other members of the Fujitsu family.

**02/07 Changes to the ICL PLC Board on 7th February**

These were noted by the ISC

**02/08 Large Projects Division Update PLC/02/07**

Mr Courtley made some general remarks on the large projects then reviewed each of the five – Pathway, Libra, HMCE, Sirius and DTI Elgar.

He referred to past concerns and the need to improve the projects. He felt that they were improving but there was further to go. On management matters, each project now had a specific business director reporting to Mr Courtley and this flatter organisation enabled customer concerns to come through to senior management very quickly. There was also a regular review programme now instituted with Mr Courtley and Mr Hirata involved. Mr Courtley added that the financial state of the projects reported at the last ISC meeting had not changed.

Mr Naruto enquired on the situation of ICL/Fujitsu Services in regard to its competitors. Mr Courtley replied that whereas EDS appeared to have more profitable contracts than ICL, some of their performance was not good and

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their public sector customers were in general not happy. IBM's involvement in the UK PFI/Public Sector market had not been particularly successful of late. Mr Courtley felt that ICL's strengths were coming through and were being recognised by the customer. On the large projects there was significant further business which ICL was pursuing, together with opportunities for re-financing.

**02/09 Update Report – Project Fuji**

Mr Bennett joined the meeting and updated his written report particularly mentioning briefings of analysts and journalists which were resulting in reasonably favourable press comment. The transfer of the people and the businesses from ICL to DMR/Fujitsu Consulting under Project Fuji remained a critical issue as did the associated staff briefings and explanations. ICL and DMR were devoting much time and attention to these matters. Mr Okada mentioned particular concerns relating to HR costs especially pensions and ICL would review the work in these areas carefully.

**Mr Christou**

It would also be necessary to undertake a programme of customer liaison as the brand changed from ICL to Fujitsu Services. This should include customer visits at a senior level and Mr Christou referred to visits ICL and he and Mr Poehner of DMR would be carrying out to potential joint customers. There was also the possibility of seminars and other activities including visits to Japan. Mr Christou referred to the likely need in future for major customers to visit the home of Fujitsu and Mr Akikusa encouraged this.

Mr Akikusa added that Fujitsu of course had many other significant businesses through Europe in addition to Fujitsu Services and Fujitsu Consulting and it would be necessary for greater communication to take place between all of the Fujitsu interests, for example particularly in relation to handling sales enquiries.

**Mr Christou**

**02/10 ICL France Re-capitalisation** **ISC/02/04**

The proposal was approved.

**02/11 ICL Hungary Re-capitalisation** **ISC/02/05**

The proposal was approved.

**02/12 Quarterly Manpower Report** **PLC/02/08**

The report was noted.

**02/13 Major Bids Report** **ISC/02/01**

The ISC noted the report. Mr Christou mentioned a major

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bid to FTEL – a BT operation intending to introduce a cable TV down telephone lines. This was a significant opportunity and ICL was one of the last two bidders however Mr Christou said that there were concerns whether BT would continue with the project given its present business difficulties.

Mr Courtley referred to proposals by different units of Fujitsu working together for Nokia.

**02/14 Acquisitions and Divestments PLC/02/09**

The ISC noted the report and Mr Christou confirmed that the Prospero disposal had completed. The ISC continued its delegated authority to Mr Christou to progress the opportunities mentioned in the report.

**02/15 Property – West Gorton, Manchester ISC/02/02**

Mr Christou referred to the West Gorton ICL site, an old building with many risks including health and safety ones emerging as our occupation continued. The proposal represented an arrangement with the Manchester City Council which would allow ICL to move from West Gorton on favourable terms into new buildings which would be much more suitable for re-letting if ICL found it had surplus space in the area in future. Mr Christou therefore proposed the project to the ISC and it was agreed.

**02/16 Chairmen and Managing Directors of Subsidiary Companies ISC/02/03**

The list was noted and approved.

**02/17 Approvals and Confirmations**

The documents Signed and Sealed papers and the last minutes of the Audit and Pensions Policy Committees were noted, on their way to the Board of Directors on the following day.

**02/18 Dates of Next Meetings in 2002**

It was noted that with changes to be made to the Boards of Directors and governance matters within ICL, further discussions would take place between London and Tokyo on the constitution of future meetings and their frequency.