



## MEMORANDUM

Company Secretary's Office

29<sup>th</sup> June 1999

**To:** The Directors, ICL PLC

**From:** T K Todd

**Re:** Capital Injection

In the paper I sent you with my memo of 21<sup>st</sup> May concerning the negotiations on Pathway, we mentioned that Fujitsu had undertaken to make an injection of new capital into ICL PLC to restore consolidated net worth as defined by the banking covenants, to £225m, by 30<sup>th</sup> June.

The amount of the capital injection needed has been established at £131.7m and, after discussion, it is proposed that the injection should take place by issue of new ordinary shares at a price of £0.50p per share.

More detail and the necessary formalities are set out in the attached resolutions. May I ask that if you approve, you kindly sign these and fax the signature page back to Rod Scott (fax no: GRO)

A paper from John Bennett is attached reporting progress on the Pathway Project following the Government's decision to cancel the benefit payment card services and go ahead with ICL Pathway on the new basis, and the ICL decision to take a provision of £180m in the 1998/9 accounts.

Thank you

p.p. Keith Todd

## ICL PLC

Written Resolution of all the Directors of the Company pursuant to Article 97(A) of the Articles of Association of the Company.

The Board note that

1. Following the creation of a provision of £180m in the Company's accounts, arising out of the ICL Pathway Private Finance Initiative contract with Post Office Counters Limited and the Department of Social Security it was proposed that the Company's major shareholder, Fujitsu Limited would subscribe for new ordinary shares in the capital of the Company (the "capital injection") in order to restore the company's consolidated net worth (as defined in the banking covenants) to £225m.
2. The capital injection would total £131.7m and the new Ordinary shares would be allotted to Fujitsu Limited, it was proposed, on 30<sup>th</sup> June 1999.
3. In order to make the capital injection it would be necessary to formally increase both the authorised and the issued share capital of the Company and it was proposed that 150,688,800 unclassified shares at present part of the authorised capital be redesignated as ordinary shares for issue as part of the capital injection. The Company's other shareholder, Fujitsu International Finance Nederland B.V. has a right to be offered an appropriate proportion of the new shares but it was proposed to disapply this right of pre-emption in favour of Fujitsu Limited's subscription for all the new shares.
4. The most recent valuation of the Company's shares by the UK Inland Revenue (for the purposes of the grant of share options to employees) was £0.50p per share. Since that valuation, the Company had announced (inter alia) the following:
  - the ICL Pathway related provision of £180m and a profitable restructured contract of approximately £1bn revenue over the six years to March 2005.
  - for the 12 months to March 1999, an increase in revenue including growth of 16% on 1998 in revenue from strategic customers, an increase in operating profit on ongoing operations before exceptional charges of 19%, improved operating margin on ongoing operations and an increased forward order book totalling £4.0bn.Having regard to these and other factors, the Board were advised the relevant ICL executives believed the value of shares in ICL was not materially different from £0.50p and consequently it was proposed that the capital injection take place at a price of £0.50p per new ordinary share.
5. To achieve the capital injection action is required by the Board and (on the recommendation of the Board) by the Company's shareholders in accordance with the resolutions below and the Board hereby

RESOLVE THAT

- a) the capital injection generally described above should proceed
- b) the current authorised but unissued unclassified shares of 25 pence each in the capital of the Company totalling 150,688,800 shares be and are hereby redesignated as 150,688,800 ordinary shares of 25p each nominal value to rank pari passu and form a single class in all respects with the Company's existing ordinary shares of 25p nominal value
- c) the attached shareholders' resolution be and is hereby approved for issue to the Company shareholders in lieu of holding an Extraordinary General Meeting to consider the matters set out therein
- d) the attached form of application for new ordinary shares in the capital of the Company (the application form) be and is hereby approved for the capital injection
- e) subject to the passing of the shareholders resolution referred to at c) above on 29<sup>th</sup> June 1999 and receipt on 30<sup>th</sup> June 1999 of a completed application form and payment of the subscription monies of £131,700,000 from Fujitsu Limited, 263,400,000 new ordinary shares in the capital of the Company be allotted to Fujitsu Limited, the name of Fujitsu Limited be entered in the Company's Register of Members therefor and the Common Seal of the Company be affixed to a certificate in the name of Fujitsu Limited for the said shares
- f) Mr T K Todd, Mr R Christou, Ms M J Faull and/or the Company Secretary be and are hereby authorised to do all necessary acts and things sign any and all documents make or give any and all entries filings confirmations, receipts or acknowledgements in order to effect and complete the capital injection and related matters.

Dated this 29<sup>th</sup> day of June 1999

\_\_\_\_\_  
Sir Peter Bonfield

\_\_\_\_\_  
T K Todd

The logo consists of the letters 'GRO' in a bold, sans-serif font, enclosed within a dashed rectangular border. Above the 'O' is a small square icon containing a stylized 'G'.

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**GRO**

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S Gillibrand

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KEITH TODD

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**GRO**

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KEITH TODD

PAGE 06  
P.5/7

The Directors  
ICL PLC  
26 Finsbury Square  
London  
EC2A 1DS

30<sup>th</sup> June 1999

Dear Sirs

We hereby apply for 263,400,000 new ordinary shares nominal value of 25p each in the capital of your company at a price of £0.50p per share.

Our remittance of £131,700,000 has been sent to your bankers, value today.

Yours faithfully

GRO

For and on behalf of  
Fujitsu Limited

30/06/1999 09:24

**GRO**

KEITH TODD

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**ICL PLC**  
**SHAREHOLDERS' RESOLUTION**

To the Directors of ICL PLC (the "Company")

The undersigned, being all the members of the Company who would be entitled to vote on the attached Special Resolution if it were to be proposed at a general meeting of the Company, hereby resolve as set out in the attached Special Resolution with the effect that such Special Resolution shall be as valid and effectual as if it had been passed on 29<sup>th</sup> June 1999, with the required majority of votes cast, at such a general meeting duly convened and held on such date.

Dated this 29<sup>th</sup> day of June 1999

**GRO**

For and on behalf of  
Fujitsu Limited

For and on behalf of  
Fujitsu International Finance (Netherlands) B.V.

30/06/1999 09:24

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PAGE 08

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**GRO**

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Dated this 29<sup>th</sup> day of June 1999

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For and on behalf of  
Fujitsu Limited

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For and on behalf of  
Fujitsu International Finance (Netherlands) B.V.

## SPECIAL RESOLUTION

THAT:

- A. The authorised share capital of the Company be and is hereby increased from £354,000,000.25 to £391,500,000.25 by the creation of 150,000,000 Ordinary Shares of 25p each to rank pari passu and form a single class in all respects with the existing Ordinary Shares in the capital of the Company;
- B. the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending 31<sup>st</sup> December 1999 all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £65,850,000;
- C. pursuant to and during the period of the said authority the Directors be empowered to allot equity securities wholly for cash as if Section 89(1) of the said Act did not apply to any such allotment;
- D. by such authority and power the Directors may during such period make offers or agreements which would or might require the allotment of securities after the expiry of such period; and
- E. for the purposes of this Resolution:
  - i) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights; and
  - ii) words and expressions defined in or for the purposes of Part IV of the said Act shall bear the same meanings herein.

The Directors  
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30<sup>th</sup> June 1999

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For and on behalf of  
Fujitsu Limited

## ICL PLC

### Board Report 28<sup>th</sup> June 1999

#### ICL PATHWAY UPDATE

#### 1. INTRODUCTION

This paper sets out the current status of the ICL Pathway project.

#### 2. HMG DECISION OF 24.5.99

A legally binding Agreement was signed between ICL and POCL on 24.5.99. The essential features follow the proposals made by ICL on 19.5.99 and are:

- i. A Letter Agreement has been signed which modifies the previously drawn up Heads of Agreement between ICL and POCL. These two documents then take precedent over the Related Agreements (the original May 1996 contract).
- ii. This Letter Agreement will be replaced by a Codified Agreement targeted to be completed by ICL and POCL by 16.7.99. This comprehensive document will become the new POCL Agreement.
- iii. If by 16.7.99 material issues remain unresolved, then POCL have the right to terminate the contract up to 30.7.99 on payment of £150m.
- iv. In a separate DSS Agreement also signed on 24.5.99, all the Benefit Payment Card related services were terminated. This was in full and final settlement of all claims and counter claims. Transitional arrangements were also put in place whereby ICL Pathway were to be paid to remove existing Benefit Payment Card customers from the system and return them to previous forms of payments, either by order-book or Automated Credit Transfer (ACT).
- v. The ICL contract with POCL remains a Service Contract, but only for Core Services (EPOSS, APS and OBCS), remains in place until March 2005, is paid for on a staged fixed price basis starting after Acceptance, and POCL have the option at the end of the contract of purchasing all the Project Assets from ICL Pathway for the sum of £1.
- vi. Escalation processes are defined for both technical and legal issues as necessary.
- vii. There remains an intention to work towards a form of Public/Private/Partnership for network banking and Modern Government, but these are not committed and are not part of the Core Services.

Company Secret  
PLC/99/21

### **3. POCL RESPONSE TO THE HMG DECISION**

POCL and Post Office Board were seriously shocked by the decisions made by HMT and DTI on their behalf covering the contractual terms and the funding commitments which they now need to manage. They feel badly let down by the public sector at large, and by DSS in particular. They clearly have difficult and incomplete negotiations with the DSS yet to be finalised.

Their relationships, therefore, with ICL are very cool on all aspects of partnership and future business, and are quite difficult at a working level as they seek to squeeze as much out of the Codification exercise and Acceptance as possible. Once we have cleared the hurdles of Codification, Acceptance, and start of National Roll-out the atmosphere should improve. We have a number of difficult months ahead.

### **4. CONTRACT PROGRESS**

The joint work between ICL and POCL to complete the Codified Agreement by 16.7.99 has kept to schedule. Good progress has been made across a wide area, and although considerable work remains to be done, the date of 16.7.99 is achievable with the goodwill and effort by both parties.

### **5. ACCEPTANCE PROGRESS**

The contract calls for Acceptance to be achieved by 16.8.99. All the preliminary work has been completed and trial results and completion reviews are now with POCL for their assessment. Of the 240 Acceptance Incidents raised, we have just one categorised as High. This incident is serious, since it relates to the difficulties being experienced by the sub-Post Masters in carrying out their stock and office balancing each Wednesday evening. Although the ICL system is generally conformant to requirements, it is proving too complex for most post office staff to handle. Considerable effort is being applied to improve and simplify the business processes, the software, the documentation and to improve training.

All other Acceptance Incidents are in the Low category, although we fully expect a growing and increasingly difficult list to be lodged with us as the mid-August deadline approaches.

### **6. NATIONAL ROLL OUT**

This remains on target to start 23.8.99 and complete March 2001. The start date is of course dependent on successful completion of Acceptance by 16.8.99.

**Company Secret**  
**PLC/99/21**

**7. ICL PATHWAY BUSINESS CASE PLAN**

ICL took provision of (£180m) as an exceptional item in its Accounts for 1998/9 to cover all abortive costs arising from the DSS cancellation of the benefit Payment Card services.

The attached Annex 1 summarises the expected revenues, profit and cash flows over the contract life to March 2005.

**8. SUMMARY**

A revised contract with POCL is achievable by mid-July, and with the planned capital injection of £132m from Fujitsu in 99/00, shows a PBT loss of (£50m) prior to the opportunities which will arise from future business in network banking, client re-engineering and Modern Government.

**J. Bennett**

Company Secret  
PLC/99/21

## ANNEX 1

**PATHWAY CORE BUSINESS PLAN**

<b><u>£m</u></b>	<b><u>Prior</u></b>							
	<b><u>Years</u></b>	<b><u>99/00</u></b>	<b><u>00/01</u></b>	<b><u>01/02</u></b>	<b><u>02/03</u></b>	<b><u>03/04</u></b>	<b><u>04/05</u></b>	<b><u>Total</u></b>
Revenue	1	169	189	115	115	115	110	904
PBT	(180)	15	20	25	24	23	23	(50)
Equity	20	152	152	152	152	152	152	
Net Debt	250	152	143	28	-9	-52	-102	
Peak Cash		370						

**Notes:**Acceptance 16<sup>th</sup> August 1999Start of Roll Out 23<sup>rd</sup> August 1999

End of Roll Out March 2001

Subcontract compensation £30m paid out in September/  
October (£15,15m)

Peak cash position arrived at during September 1999