Company Secret

ICL PLC

Minutes of the meeting of the Board of Directors

Held at 14.00 on Wednesday 21st July 1999
26 Finsbury Square, London, EC2A 1SL

Present	Mr M Naruto	(Chairman)
	Sir Peter Bonfield	(Deputy Chairman)
	Mr T K Todd	(Chief Executive)
	Mr T Sekizawa	
	Vicomte Davignon	
	Mr S Gillibrand	
	Mr H Kurokawa	
In attendance	Mr R F Scott	(Secretary)
	Mr M Aida	
	Mr T Yurino	
	Mr Y Katsuya	
	Sir Michael Butler	(item 20)
	Mr J H Bennett	(item 20)
	Mr R Christou	(item 20)
	Mr A Davidson	(item 21)
	Mr E Tihila	(item 22)

Sir Peter assisted Mr Naruto with the meeting.

Apologies for absence were received from Mr J J Ollila and Mr H Sakai.

Action by: **99/18** **Minutes of previous meeting**

The Minutes of the meeting held on 13th May 1999 were approved as a correct record and signed by Sir Peter.

99/19 **Chief Executive's Report May 1999** **PLC/99/15**

Financial Performance **PLC/99/16**

Amendment to Borrowing Authorities **PLC/99/19**

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

a) Mr Todd expressed his appreciation to Fujitsu for the injection of £131.7m for new ordinary shares in ICL PLC.

GRO

b) He emphasised that he and his management team intended to deliver £95m PbT in the present year. Mr Todd went on to say ICL had lost £20m in Q1 of the year and he saw no excuse for this. He referred to the actions being taken to turn the situation around including his sessions with the managing directors. The principal thrust of ICL's activity was to improve growth and gross margins, and to cut costs.

c) Mr Todd referred to market data, ICL's recent transformation and to the business model. The business plan showed £135m ongoing operating profit in 1999/00, £95m PbT and included £169m revenue (with profit) from Pathway. The present quarter should show profit on divestment of ICL's remaining shares in Softbank of Poland. He then referred to ICL's offerings to the market – Customer Relationship Management, E-business, Applications and the IT Utility.

d) Mr Downing presented on the ICL financial performance. He drew attention to the £20m loss in Q1 and to low revenue growth in the quarter and falling gross margins. However operating cost was stabilising as a result of the many actions and programmes underway. He mentioned the disappointing performances of the Retail and Operational Services businesses in particular.

e) Mr Downing then referred to the strategic revenue and cost programmes which were being intensively followed in ICL to improve the situation. The forecast for 1999/00 included profit before tax of £95m, 17% revenue growth 20.8% gross margins (only 18.6% had been achieved in Q1) £45m restructuring expense, and £30m profit on disposals.

f) The borrowings situation was noted including that if the Pathway acceptance and national roll out dates presently forecast were met there would be no need to call on a further loan facility from Fujitsu which was being "held in reserve". There were also significant actions underway to improve funding including securing additional funding for some of the PFI contracts, securitisation of outsourcing contracts, a property outsourcing project and the sale of the Softbank shares.

g) Mr Todd summed up the report on ICL's progress. We had to spend less money and intended to take £50m out of the cost base during the year. Also, many people in ICL were not working to 100% of their available utilisation. ICL intended to sell more capacity particularly

FUJ00003634

in skills and in networks. Efforts were being made to improve sales productivity significantly.

h) The non-executive directors expressed concern and disappointment over the first quarter result, and the growth being achieved by ICL.

i) Mr Naruto expressed concern about the level of morale of employees below the level of the managing directors.

j) In reply, Mr Todd emphasised that after some difficulty, he had now managed to align the managing directors behind the business model and "One ICL", and to bring them to accept their responsibilities for the poor performance. A considerable programme of actions as outlined above was underway to improve matters. Also, after discussion it was agreed that Pricewaterhouse Coopers be asked to review ICLs financial processes and systems.

k) Mr Downing explained that it was hoped to sign the ICL PLC Group Statutory Accounts for the 15 months to 31st March 1999, during the present week. Final adjustments and discussions with the auditors were still taking place. (The Board meeting held in May had delegated approval of the final accounts to a Committee and this arrangement was still in place).

Mr Downing said the factors delaying the accounts had been resolved including the capital injection, establishing the Pathway provision and completion of negotiations with the Banks. The Pathway provision was final, there were considered to be no more shocks in the present situation on the project although the Post Office still had an opportunity to cancel before 31st July (at a cost to them of £150m).

l) The proposal to amend the borrowing authorities was explained. In particular a proposed change to the ICL PLC Articles of Association would remove flexible finance and segregated funding, i.e. items of non-recourse funding from the definition of "adjusted capital and reserves", three times which was the maximum borrowing allowed. This followed current best practice in the industry. Also some clarification would be achieved of interpretational issues in the existing documents.

In addition it was also proposed to amend the internal borrowing limits which provided a ceiling on the financial authority delegated by the Board to the Group Treasurer and others. GRO

FUJ00003634

The proposal to amend the Articles of Association was agreed for submission to shareholder companies for signature.

Mr Todd/
Mr Downing

The Board wished to ensure that the elements of non-recourse/flexible finance/segregated funding now to be excluded from the limits by the proposed change in the Articles, would continue to be reported to each meeting of the Board.

99/20 **ICL Pathway Project Update** **PLC/99/21**

Mr Bennett, Mr Christou and Sir Michael reported. They particularly referred to progress on the project and to the new codified contract between ICL Pathway and the Post Office, which had been to the Post Office Board. However Post Office negotiations with the DSS might result in the contract being signed at the latest possible time, namely 30th July. Mr Bennett then referred to the highly important milestones of acceptance of the system in the Post Offices and the roll out dates later in the year.

Mr Bennett then referred to the "cost down programme" and activity, which was intensifying, to revise the business plan to produce a profit on the contract greater than the provision taken (so far profit was expected at £130m, £50m short of the provision).

Sir Michael, Mr Sekizawa and the other Board members praised and thanked Mr Todd, Mr Christou and Mr Bennett for their efforts to save the project. Much work had still to be done and a real partnership achieved with the Post Office but the project had been placed on a much firmer footing. Mr Sekizawa said we must not now fail to achieve acceptance and "go live" at the earliest date and he outlined assistance Fujitsu was giving. Also, after so much effort we must bring the project to overall profitability.

In the coming relationship with the National Audit Office then the Public Accounts Committee, Mr Gillibrand recommended a thorough pro-active approach as the NAO would review the past difficulties on the project thoroughly.

99/21 **Consolidated Microsoft Exchange Offering**

Mr A Davidson presented on this, one of ICL's most exciting market offerings. Essentially ICL offered an alternative large scale solution for implementation for Microsoft Exchange, to the more usual distributed approach which was being shown to be less reliable and more expensive. GRO

GRO

GRO

GRO

The Consolidated Microsoft Exchange offering ICL can now deliver, which continues all of ICL's services and product capabilities in the Microsoft arena, provides ICL with a market lead.

In total this offering including the business pulled through could amount to a £1bn over the next three years. The market throughout Europe in that three years might be for 12 million new exchange "seats" and ICL sought at least 15% of this market.

99/22 Presentation on E-Business

Mr E Tihila presented on ICLs electronic business. In e-business ICL was an experienced network solution provider with 400 or more projects completed or underway so far and a wide range of electronic business services and resources together with ICL's established systems integration skills. Mr Tihila explained several of the projects and said last year ICL had earned £80m from e-business. This year the revenue was forecast at £160m and the growth rate was accelerating. Mr Todd encouraged Mr Tihila to seize opportunities as quickly as possible and said that he would review the resourcing of this business on a quarterly basis to ensure it was able to take advantage of them.

99/23 Acquisitions and Divestments

Mr Todd reported on the proposed sale by a market placing in Poland of ICLs remaining shares in Softbank company.

99/24 Approvals and Confirmations

Documents signed and sealed **PLC/99/23a**
PLC/99/23b

The Board agreed:

The signing of the documents dated 16th April to 30th June 1999 inclusive set out in the Register of Documents signed Under Hand.

The sealing of the documents numbered 76500 to 76513, between 16th April and 30th June 1999 inclusive set out in the Register of Documents Sealed.

Minutes of the Audit Committee 13th May 1999 were noted by the Board. GRO

FUJ00003634

99/25 Customer Event

Mr Todd said ICL was planning a customer event at the Dorchester Hotel on the evening of 25th November. This would be a prestigious event for major customers to meet the Board and ICL executives just prior to Christmas. Invitations would be forthcoming shortly.

99/26 Dates of Next Meetings

25th November 1999

GRO