

Company Secret

ICL PLC
International Computers Limited
ICL Global Investments Limited

Minutes of the Investment & Strategy Committee

Held at 1 pm on Wednesday 12th May 1999
 26 Finsbury Square, London, EC2A 1DS

Present	Mr T K Todd (Chairman)
	Mr M Naruto
	Mr T Sekizawa
	Mr R Christou (item 21)
	Mr H Kurokawa
	Mr T Yurino



In attendance	Sir Michael Butler (item 21)
	Mr R F Scott (Secretary)
	Mr M Aida
	Mr Y Katsuya
	Mr Y Sumida
	Mr A Downing
	Ms M Faull (item 19)
	Mr M N Owen (item 20)
	Mr J H Bennett (item 21)
	Mr D A Wimpres (item 25)
	Mr G Hall (item 21)

Apologies for absence were received from Mr Sakai.

Action by: 99/18 Minutes of Previous Meeting

The Minutes of the meeting held on 3rd February 1999 were approved as a correct record for signature by Mr Todd.

99/19 Chief Executive's Report, May 1999 PLC/99/5

Financial Performance, borrowings/cash flow PLC/99/6

Recapitalisation of Subsidiaries ISC/99/18

Mr Todd expanded on his report then Mr Downing and finally Ms Faull presented. Points noted:

Company Secret

- a) Mr Todd referred to the Business Transformation Campaign, including a recent event involving 500 ICL managers plus some Fujitsu secondees for three days of briefing/coaching.
- b) Mr Todd referred to five areas of discussion with the business managing directors, to improve profitability and increase the overall growth rate in order to underpin sustainable profit growth over the next two years. These were; operating cost reductions (target £50m) price increases (2% on average, target £56m), improvement in utilisation of skills (target £25m) elimination of bad projects (target £25m) and growth of 20% and net contribution of 10% (target £56m). There was thus a potential improvement in operating profit of over £200m. The plans to reach these targets were the basis of the management confidence that by year 2000/1 6% operating profit on revenue was possible.
- c) ICL's proposed flotation was briefly discussed. The flotation decision was for ICL's shareholder but Mr Todd saw ICL contributing by achieving the necessary profitability, and putting together the final business plans and strategy. ICL was working on the plans and would present to the Fujitsu group appointed to assess whether to approve an ICL flotation, before the July ICL Board meeting. After discussion with Fujitsu it was hoped a formal decision on the float plan would be proposed for the July Board meeting. In emphasising that flotation was a shareholder decision Mr Naruto added it could only receive full attention after Pathway project issues had been resolved. Fujitsu would decide on the financial advisor for the flotation and pay the fees.
- d) Mr Todd referred to the acquisitions and divestments set out in his report including progress with the [IRRELEVANT] and [IRRELEVANT] propositions. He also referred to [IRRELEVANT] and to [IRRELEVANT] where ICL was considering the future of its remaining stake. Mr Todd said he believed that the [IRRELEVANT] might be taking legal action against Fujitsu in regard to [IRRELEVANT] and added that this would result in an end to ICL working with [IRRELEVANT] Mr Naruto said Fujitsu would defend itself against any legal threat.

The Committee discussed Camelot where the competition for a new licence to operate the UK National Lottery would be announced in the near future. The Camelot shareholders and [IRRELEVANT] were considering the situation. There was a possibility the Post Office might join Camelot as a shareholder and ICL did not intend to reduce its

Company Secret

Camelot shareholding in the process. The other shareholders would wish ICL to bear its proportion of any discount involved in a share sale to the Post Office. Cash was at present held in Camelot and could not be released, for example paid out by means of dividends as a result of the licence provisions. This would be a factor in ICL's decision whether to participate in Camelot in the long term as a shareholder.

- e) Mr Downing presented on ICL's performance for the 12 months to December 1998. Revenue had increased by 9.4% and Profit before Tax had been £63.1. For the 3 months to end March 1999 revenue had increased 11.9% on the comparable period and PbT had been £0.2m – a series of adjusting items had reduced the budgeted level of £5m. Mr Downing explained several of these “one off” items including an additional write-off of spares of £12m and the final cost of provisions on the IRRELEVANT contract. It was of course intended that “one off” items would not recur with the result that gross margin for the year 1999/01 should improve.
- f) The Committee noted the results translated into “Euros” at 1.48 to £1. ICL was a 5bn Euro turnover company.
- g) The Committee noted revenue growth by industry and in several of the horizontal businesses including significant increases in Multi-vending Computing and Operational Services. The breakdown of business by geography was also discussed.
- h) In expanding on the difficulties over the spares situation, Mr Todd said he believed it was not necessary to keep a stock of spares particularly through flotation and Mr Palk was looking at alternative ways of reducing the liability, for example by establishing a joint venture with competitors with the same need for access to spares. ICL would focus on a core group of PC and server products, thus reducing the spread of items on which spares would be needed. Other issues in the Operational Services business were noted including the need to increase prices, and utilisation of capacity in the Outsourcing business.
- i) Figures for the final quarter of the accounting period ending 31st March 1999 were reviewed in detail. The Committee then considered the budget and forecast for 1999/00. Mr Todd explained the opportunities for increased growth and profitability in most of ICL's businesses. Globalstore from ICL Retail was discussed and Mr Sekizawa referred to the level of development cost

Company Secret

and the apparent need for considerable development/enhancement of the product for each new customer. Mr Todd replied that although Globalstore was a clear winner in the marketplace, relatively few large retail customers were changing their systems at present. The Globalstore commercial model was being reconsidered in order to improve profitability.

- j) The Committee then considered the "non-linear" opportunity to increase profitability in ICL, particularly as regards the Operational Services division and how it was organising to achieve in this area.
- k) Ms Faull presented on ICL's cash movements and borrowing requirements. Forecast cash outflow for 1999 considerably exceeded ICL's commitment to Fujitsu although most of the increase in borrowing was for the Pathway project, where different financing arrangements might be put in place. Ms Faull went through plans to reduce borrowings and improve liquidity including possible use of a short term loan of up to £100m from Fujitsu International Finance to be repaid before end December 1999. Other initiatives were noted.

Ms Faull referred to the borrowing limit established under the ICL PLC Memorandum and Articles and explained that proposals to change this limit would be proposed at the July meeting of the Committee and ICL PLC Board. The approach was likely to be, in line with the way banks and analysts tended to look at such matters, to "carve out" – i.e. exclude from the definitions of borrowings in the Memorandum and Articles, some items such as flexible finance and segregated funding. Mr Todd added that a change to the Memorandum and Articles could conveniently be considered as part of the revised business plan for ICL, for flotation, i.e. as a structural matter in the move to float. He added that ICL had been improving its cash management but there was still work to do in improving forecasting and ensuring that the businesses met their commitment on cash.

- l) Ms Faull explained the proposal to recapitalise ICL Italia S.p.A. This was approved.
- m) Mr Todd said the quarter ending 31st March 1999 had been unnecessarily difficult and it would be necessary to achieve a better "beat rate" of quarter by quarter profitability for ICL's business on a continuing basis. As he saw things at present, he believed April and May might also be disappointing.

Company Secret

- 99/20 Statutory Accounts for:**
- | | |
|--|------------------|
| ICL PLC | PLC/99/7 |
| International Computers Limited | ICL/99/1 |
| ICL Global Investments Limited | IGIL/99/1 |
- together with ICL PLC Company only Profit and Loss account (PLC/99/15) and ICL PLC Ordinary Dividend paper (PLC/99/8)**

The Statutory accounts in draft and the other papers were grouped together under ISC paper ISC/99/12. The Committee noted the draft accounts and papers, which would go for review to the Audit Committee the following day. The Audit Committee would be asked to recommend adoption of the accounts and dividend to the appropriate Boards of Directors and Committees appointed by those Boards to finalise the accounts. Mr Todd requested that any questions on the accounts occurring after the meeting be passed to Mr Owen.

It was noted there would be no immediate change to the structure of the investment held by ICL in Fujitsu Computers Europe. The result of this was likely to be a write-down in the ICL accounts, as dictated by the relevant accounting standards, although discussions with Fujitsu were not yet concluded. This would of course affect the ICL PLC profit. Mr Naruto would discuss this with Mr Takaya.

- 99/21 ICL Pathway Project Update** **PLC/99/10**

Sir Michael Butler, Mr Christou, Mr Bennett and Mr Hall joined the meeting.

Mr Bennett presented on progress with the programme including good progress with preparation for the national roll-out and the status of acceptance activities. The programme was going well and on Monday next an additional 100 post office outlets would begin to be introduced to the live trials. National roll-out was targeted for 20th August 1999 and completion thereof in April 2001.

This matter is more fully covered in the attached report marked (A) which summarises the present state of "without prejudice" negotiations with HM Government.

- 99/22 Other current PFI projects** **ISC/99/13**

The paper was noted. Mr Todd said that in any of its contracts, ICL would prefer to supply Fujitsu or Fujitsu Computers Europe PC, Notebook and Server products. However the decision would have to be made on commercial grounds, particularly price competitiveness and could not be taken for granted by FCEL. The Committee agreed, with Mr Sekizawa saying that what was most important was for

Company Secret

Mr Todd

ICL to win the bid and succeed in its business although of course if Fujitsu/FCEL products were competitive it would be hoped that ICL would include them. He added that feedback to Fujitsu/FCEL of instances of non-competitiveness would be useful and helpful.

99/23 Major Bids Report ISC/99/14

The Committee noted the paper and continued the authorisation to Mr Todd/Mr Christou to sign/approve any contracts of more than £50m arising prior to the next meeting of the Committee.

99/24 Market Update PLC/99/12

The presentation was postponed on this occasion.

99/25 KnowledgePool ISC/99/19

Mr Wimpress reported on progress with the KnowledgePool business and the Committee considered whether to endorse a move, by the end of 1999 to the next stage in the KnowledgePool plan, namely to form a single corporation to bring together the parts of the business from Fujitsu, ICL and Amdahl.

In discussion Mr Sekizawa said he felt that despite the strength of its internal training Amdahl was not particularly strong in selling training services in the US market. Fujitsu in Japan and ICL in Europe had stronger positions. More study and experience and discussion in Tokyo was needed before the Fujitsu family could decide how and when to advance the KnowledgePool plans. Mr Naruto added that the training services business throughout the world was moving very quickly, particularly through on-line training offered over the Internet. Therefore geography might be less important when compared to language and the US and UK considered one market.

Mr Todd

After discussion Mr Wimpress and his team were congratulated on the progress being achieved and asked to concentrate on improving the business results within the present structure. The Committee would review the situation in 12 months time to consider then how best to develop the business further, possibly through the creation of one corporation. In parallel, we would keep in touch with the discussions in Tokyo. The Committee agreed KnowledgePool was a good example of Fujitsu/ICL and Amdahl working together and Mr Wimpress emphasised the need to establish one brand for the global business which would be of value to ICL as an asset, particularly at the time of flotation.

Mr Todd

Company Secret**99/26 Approvals and Confirmations****a) ICIM**

The position was noted.

b) Acquisitions & Disposals update **ISC/99/15**

The Committee noted the situation and endorsed the recommendations. Mr Christou was authorised to continue to progress with potential divestments in particular subject to bringing detailed proposals to the Committee when necessary.

c) Fujitsu Australia

Mr Todd said he hoped by the July Committee and Board meetings to be able to propose a revised way of working together for ICL and FAL. He expressed concerns (which he had passed to Mr Kojima) about the possibility that a new CEO might be brought in for FAL who would have his own views on strategy and direction which might potentially conflict with the views of ICL and Fujitsu.

e) Healthcare in Holland **ISC/99/20**

It was noted ICL sought to dispose of this business, possibly without a profit on sale but avoiding liability to support the software in future.

f) Half Yearly Preference Share Dividend **PLC/99/13**

The paper, for the Board, was noted.

g) Chairman and Managing Directors of Trading Subsidiaries **ISC/99/21**

The paper was noted and new appointments since the last meeting were endorsed.

**h) Board Committee Minutes: Pensions Policy Committee
18 January 1999**

Noted.

i) Documents signed and sealed **PLC/99/14a
PLC/99/14b**

The papers, for the Board, were noted.

99/27 Dates of Next Meetings

20th July 1999

24th November 1999

**Privileged
Made in contemplation of litigation
(contains without prejudice material)**

**Report (A) – ICL Pathway
for May 1999**

The Committee considered the project against the increasing hostility of the Benefits Agency and in the light of communications received from the Public Sector following the review by HM Treasury. Possible courses of action, including litigation and timing thereof, were discussed, in the light of ICL's belief that the Benefits Agency customer no longer wanted the magnetic stripe benefits card element of the project to proceed.