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ICL PLC

Minutes of the Meeting of the Board of Directors

Held at 10.15 am on Thursday 7th February 2002

At 26 Finsbury Square, London, EC2A 1SL

Present Mr M Naruto (Chairman)
 Mr N Akikusa
 Mr R Christou (Chief Executive)
 Vicomte Davignon
 Mr S Gillibrand
 Mr Y Hirose
 Mr H Kurokawa
 Mr H B Thompson

In attendance GRO (Secretary)
 Mr D Courtley
 Mr P Earl
 Mr T Okada
 Mr T Adachi
 Mr H Hirata
 Mr T Yurino
 Mr Y Katsuya
 Mr K Onuma
 Mr J H Bennett (Item 8)

Action by: 02/01 Chairman's Remarks and Board Membership PLC/02/11

The Chairman said that the IT market continued to be difficult and Fujitsu companies were struggling. However under Project Fuji ICL would have a new start – a new name

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(Fujitsu Services) a new Board and transfer of parts of its business to DMR (Fujitsu Consulting). He went on to say that Vicomte Davignon, Mr Gillibrand and Mr Thompson will be standing down from the Board at this meeting and as a result of redundancy Mr Scott would be replaced as Company Secretary by Mr R Allnutt (who would undertake the post in addition to his existing duties as group counsel. He praised the contribution to ICL's business of the three directors and praised the work of the Company Secretary. He then asked the Board to join with him in thanking all four for their services to ICL.

The Chairman then proposed that Mr Hirata and Mr T Adachi join the Board and that Mr R A J Allnutt replace Mr Scott as Company Secretary with Miss Rachel Moseley, Mr Scott's assistant, appointed Assistant Company Secretary.

Vicomte Davignon and Mr Gillibrand will be leaving the Audit Committee and Mr Gillibrand would also stand down from the Directors' Remuneration Committee.

In respect of the Board changes referred to and also to consequential changes in committee memberships, the Board

RESOLVED

- i) THAT the resignations from the Board of Vicomte Davignon, Mr Gillibrand and Mr Thompson be and are hereby accepted, with effect from the end of the meeting.
- ii) THAT Mr H Hirata be and is hereby appointed a Director of the Company with immediate effect.
- iii) THAT Mr T Adachi be and is hereby appointed a Director of the Company with immediate effect.
- iv) THAT Mr R F Scott be and is hereby replaced as

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Company Secretary by Mr R A J Allnutt, with effect from the end of the meeting.

- v) THAT Miss R H Moseley be and is hereby appointed Assistant Company Secretary.

The Board noted that, following the appointment of Mr Hirata and Mr T Adachi to the Board each of Mr Akikusa, Mr Naruto, Mr Hirose, Mr Kurokawa, Mr Hirata and Mr T Adachi would appoint the others as his alternate director to attend and vote at Board Meetings in his absence and the Board

TO RESOLVE

- vi) THAT the above mentioned appointments of alternate Directors be and are hereby approved.

The Board also noted that Vicomte Davignon and Mr Gillibrand would leave the Audit Committee and Mr Gillibrand will leave the Directors' Remuneration Committee.

02/02 Minutes of Previous Meeting

The minutes of the meeting held on 31st October 2001 were approved as a correct record and signed by Mr Naruto.

02/03 Chief Executive's Report – February 2002 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 continental European economies although there were still significant job losses occurring. It was hoped that the difficulties of the IT Services Sector were "bottoming out" and that after a flat 6-9 months, growth would resume. It was hoped that ICL would be able to benefit early from any up-turn as a result of the significant cost reductions we were achieving through re-structuring. The Board noted that ICL

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had made a profit in the month of December although Mr Christou said he was disappointed with the forecast for the full year (which had fallen) and the businesses, directed by Mr Courtley, were working to improve it. He went on to explain that evidence was increasing that the re-branding of ICL as Fujitsu Services was what the customers wanted as was the significant re-structuring and the organisational changes being made, including de-layering the structure so that the Company would be more responsive to customer issues.

Mr Christou referred to three significant concerns – first, to complete the re-structuring programme mentioned at the last Board meeting and then to invest to make the business grow, ICL would require more capital – second, issues about EMEA and third, the remained risk in the mid-term plan certainty on the need to retain the cost savings coming out of this year's restructuring spend but also to grow revenue whilst managing a significant expected decline next year in VME sales. He referred to the good relationship with DMR and how he was visiting appropriate customers/prospects with Mr Poehner of DMR.

ICL would not at present close the French business – it would be managed as break-even as soon as possible. On Invia, a buy out of the minority shareholders and a purchase from Invia of the Scandinavian businesses previously sold by ICL were under consideration. EMEA would be divided into strategic/ principal countries, with which ICL would continue and non-strategic countries with limited activity and possible closure/ sale in due course.

Vicomte Davignon suspected the "new start" for ICL as Fujitsu Services would be a good opportunity to approach the minority Invia Shareholders to ask them to sell and Mr Christou will consider this.

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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 not as low as it might be in the light of the re-structuring and staff were appreciating the firm action being taken on re-structuring, on the organisation and on cost cutting.

02/04 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 £13.7m profit and the second half budget of £13.6m. 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 reviewed the figures in more detail which, amongst other matters 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 information including proposed management action, was

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noted.

- d) Cash flow continued to deteriorate, due mainly to losses, the working capital requirements of the large projects and restructuring expense. Mr Earl explained the accounting treatment of large projects, in response to a question from Mr Thompson. Until profits could be recognised, a reserve was built up on the balance sheet, which was “unwound” later as profits were taken. On the balance sheet, net borrowings at the year end were forecast at £378.5m and shareholders’ funds at £84.5m. 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.

Mr Thompson referred to the consistently bad performance in the EMEA countries. Mr Christou replied that this was disappointing but that competitors (e.g. Synstar) appeared to suffer in the same way. Also, EMEA countries did suffer from lack of focus from senior management (who of course had other matters to attend to) and from the fact that as small operations, that country’s best managers were not usually attracted to work in them.

02/05 Mid-Term Plan

PLC/02/03

Mr Christou took the Board through the slides in the papers, emphasising amongst other matters that ICL as Fujitsu Services was in a business area where estimated growth

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was expected to be significantly more than in hardware.

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 Christou continued, referring to the removal of multiple headquarters in the centre and in the divisions and 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. In addition some 700/800 could go to DMR/Fujitsu Consulting.

Mr Earl referred to the financial projections in the Mid-Term Plan and it was noted that revenue growth from the year 2001/02 to 2002/03 was expected to be 5.2% (which would convert ICL's loss before tax of around £130m in the present year to a profit of around £20m next year). Mr Christou and Mr Courtley agreed that this was challenging. However it was thought the market would grow by at least this amount and that if ICL could manage the decline in VME revenues and hold on to the significant savings made by re-structuring whilst achieving revenue growth, then it would be possible.

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

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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 the divisions/business units. Mr Courtley explained that activity in EMEA would focus on principal countries; in particular France, Germany, Netherlands, Italy, Belgium, Portugal, Republic of Ireland, and Switzerland (including Austrian branch) for retail only. 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.

The Board discussed the new organisation and also the mid-term plan.

The Chairman referred to previous confusions (before Mr Christou and Mr Courtley began to change matters) over ICL's offerings to the market and lack of a clear organisation and responsibilities. The new plans appeared to simplify matters considerably.

Mr Gillibrand supported the changes, in part believing them the inevitable result of ICL's recent actions to eliminate its

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problems. It was necessary now to give the employees and customers the assurance that this was the “final” position (except for some further EMEA changes) as regards strategy, organisation and the management team. Further uncertainty should be avoided.

Mr Thompson hoped that the changes would form a basis for Fujitsu Services to “grow into success”. Also ICL should take the opportunity in the present financial difficulties of some companies, to seek out outsourcing opportunities. He questioned how the new organisation would be able to address certain customers and Mr Courtley and Mr Christou explained how they saw Fujitsu Services’ Global “reach” (as part of the Fujitsu Group) in future. Mr Christou would be devoting more time in future to customer liaison at a senior level.

Vicomte Davignon saw it as important to make clear that Fujitsu Services was not simply a re-organisation of ICL but a deliberate choice, within the Fujitsu Group, for the future. He felt it was important to ensure the reliability of the figures in the plan such that in the next few years there would be “no surprises”. He also urged a global response through Fujitsu to customers who would want their problems dealt with in whichever country they occurred. After discussion, the Board agreed it would be vital for Fujitsu as a whole to work out an approach to customers which would fully utilise all Fujitsu’s strengths and maximise the synergy possibilities.

Mr Akikusa thanked the Board for their comments and gave some examples of how Fujitsu Group coordinating through the world, was dealing with the kind of multi-national customer situations which had been discussed. He referred to growth in the software and services market place and the position of competitors. He spoke of the difficulties of undertaking large projects with a long pay back period and

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the cash needs of the company in this situation. Referring to ICL's cash requirements, he said he favoured sale of Multivendor Computing as soon as practicable. He also spoke of the need for a particular Fujitsu unit to be seen as part of the whole, with virtually instant communication of customer issues to the relevant point in the group where they would be solved. Mr Kurokawa referred to the way ICL was tackling global customers such as the approach to Nokia.

02/07 ICL PLC Capital Injection at 31 March 2002 PLC/02/12

The paper set out that at 31st March ICL's shareholders' funds were expected to be £80.7m. The existing bank covenants set out that 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 was making the case to its shareholder, Fujitsu to increase equity investment in ICL prior to 31st March 2002 by around £160m. Mr Christou, Mr Earl and Mr Adachi would progress this matter.

Mr
Christou

02/08 Update Report – Project Fuji PLC/02/06

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 Naruto said both Fujitsu Services and Fujitsu Consulting must ensure that no customer issues/sales opportunities etc were missed in the transition of the part of ICL's business going to DMR. Nor should the staff, particularly those

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moving employer, be allowed to become disaffected.

02/09 Large Projects Division Update

Mr Courtley made some general remarks on the large projects then referred to the review in the paper of 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. This flatter organisation enabled customer concerns to come through to senior management very quickly. There was also a regular review programme now instituted with himself and Mr Hirata involved. Mr Courtley added that the financial state of the projects reported at the last ISC meeting had not changed.

On Libra in particular, negotiations with the UK government were difficult. The additional work the customer required totalled more than £400m in future costs to ICL but only about £300m had been anticipated in the memorandum of understanding – financial model, the basis of the present negotiations. However the customer did at least understand the reasons why the estimated cost had reached the higher figure (mainly the high level of functionality he required on the desk top).

02/10 Quarterly Manpower Report PLC/02/08

The report was noted.

02/11 Acquisitions and Divestments

The Board noted the report and Mr Christou confirmed that the Prospero disposal had completed.

02/12 Approvals and Confirmations PLC/02/10

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The documents Signed and Sealed papers and the last minutes of the Audit and Pensions Policy Committees were noted and approved.

02/13 Chairman's Closing Remarks

The Chairman said this was the last Board meeting under the present arrangements (note: since November 1990 when the arrangements were instituted, there have been 46 meetings). Future meetings and/or contracts activity for ICL PLC would be subject of discussion between ICL management and Fujitsu.

The Chairman again thanked those leaving and wished them well. They in turn wished the company, the shareholder and the management team, e.g. success in the future.