

COMPANY SECRET

ICL PLC

MEETING OF THE BOARD OF DIRECTORS

Held at

26 FINSBURY SQUARE, LONDON, EC2A 1DS

on Thursday, 23 July 1998

at 2.00 pm

PRESENT: Mr M Naruto (Chairman)
Sir Peter Bonfield (Deputy Chairman)
Mr T K Todd (Chief Executive)
Mr S Gillibrand
Mr H Kurokawa
Mr H Sakai

IN
ATTENDANCE: Mr S Riesenfeld
Mr R F Scott (Secretary)
Mr T Yurino
Mr Y Sumida
Mr T Yamoda
Mr Y Katsuya
Mr A Rowley (Item 28)

Apologies for absence were received from Vicomte Davignon,
and Mr J J Ollila.

Sir Peter assisted Mr Naruto with the Meeting.

Action by:

98/20 CHANGE OF SHAREHOLDING, AND BOARD AND COMMITTEE
MEMBERSHIP PLC/98/13

Mr Fukagawa and Mr Furukawa had resigned from the Board, as had Mr Watanabe who was returning to Tokyo.

It was noted that under an existing option agreement, Northern Telecom (through its subsidiary Nortel Plc) was selling its shares in the company to Fujitsu with effect from 30th September 1998. Consequently Mr Monty (and his alternate Mr Gardener) had resigned from the Board.

Mr Todd/
Secretary

The Board thanked all the resigned directors for their services and the Chairman would write to them. The Board then considered proposals for new appointments of Directors and also consequent Committee changes, then passed the following resolutions:

COMPANY SECRET

A. THE BOARD

- i) Noted the proposals that Mr T Sekizawa and Mr H Kurokawa join the Board with effect from 23rd July 1998 and

RESOLVED

- a) THAT Mr T Sekizawa be and is hereby appointed a Director of the Company with immediate effect.
- b) THAT Mr H Kurokawa be and is hereby appointed a Director of the Company with immediate effect.
- ii) Noted that, following the appointment of Mr Sekizawa and Mr Kurokawa, to the Board
- each of Mr Sekizawa, Mr Naruto, Mr Sakai and Mr Kurokawa had appointed the others as his alternate director to attend and vote at Board Meetings

and the Board RESOLVED

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

The Board noted that Mr Yurino had been appointed ICL Director, Fujitsu Relations to replace Mr Watanabe and that Mr Yurino would be appointed Director of the major subsidiary companies and join certain of the Board Committees.

B. BOARD COMMITTEES

i) INVESTMENT AND STRATEGY COMMITTEE

The Board noted that Mr Fukagawa, Mr Furukawa and Mr Watanabe had left the Committee, and noted the proposal that Mr T Sekizawa, Mr H Kurokawa and Mr T Yurino join the Investment and Strategy Committee and

RESOLVED

- a) THAT the Board appoint Mr T Sekizawa to join the ICL Investment and Strategy Committee with immediate effect
- b) THAT the Board appoint Mr H Kurokawa to join the ICL Investment and Strategy Committee with immediate effect and

GRO

COMPANY SECRET

- c) THAT the Board appoint Mr T Yurino to join the ICL Investment and Strategy Committee with immediate effect

The Board noted and approved Appointments of Alternate Committee Member whereby Mr Sekizawa, Mr Kurokawa, Mr Sakai and Mr Naruto appointed Mr T Yurino to be their alternate on the Investment and Strategy Committee.

ii) **AUDIT COMMITTEE**

The Board noted that Mr Monty (and Mr Gardener) Mr Fukagawa and Mr Watanabe had resigned from the ICL PLC Audit Committee and

RESOLVED

- a) THAT the Board appoint Vicomte Davignon to join the ICL PLC Audit Committee with immediate effect.
- b) THAT the Board appoint Mr T Takaya to join the ICL PLC Audit Committee with immediate effect.
- b) THAT the Board appoint Mr T Yurino to join the ICL PLC Audit Committee with immediate effect.

iii) **DIRECTORS' REMUNERATION COMMITTEE**

The Board noted a proposal that Mr T Sekizawa and Mr T Yurino join the ICL Directors' Remuneration Committee and

RESOLVED

- a) THAT the Board appoint Mr T Sekizawa to join the ICL Directors' Remuneration Committee with immediate effect.
- b) THAT the Board appoint Mr T Yurino to join the ICL Directors' Remuneration Committee with immediate effect.

iv) **EXECUTIVE MANAGEMENT COMMITTEE**

The Board noted that Mr H Watanabe had resigned from the ICL Executive Management Committee and

RESOLVED

THAT the Board appoint Mr T Yurino to join the ICL Executive Management Committee with immediate effect

GRO

COMPANY SECRET

iv) PENSIONS POLICY COMMITTEE

The Board noted that Mr H Watanabe had resigned from the ICL Pensions Policy Committee and

RESOLVED

THAT the Board appoint Mr T Yurino to join the ICL Pensions Policy Committee with immediate effect.

98/21 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 28 May 1998 were approved as a correct record and signed by Sir Peter.

98/22 MATTER ARISING

Re Minute 98/13i - the High Performance Division had progressed with "Project THOR" to enable ICL customers with large scale adoption of Windows NT through use of ICL Trimetra Servers. It was hoped a first sale (and reference site) could be arranged with EDS and the UK Inland Revenue, providing Windows NT on up to 50,000 desktops. Mr Todd commended this ICL offering to Sir Peter for BT.

98/23 CHIEF EXECUTIVE'S REPORT JULY 1998 PLC/98/14

Mr Todd expanded and updated his written report.

- a) Although below budget, ICL had made an operating profit in Quarter Two. Growth in this quarter was poor, worse than quarter one and we were trying to reverse the trend by making as many short term sales as possible.
- b) The Pathway project had also been discussed at the Audit Committee (see Audit Committee Minutes). Since the last meeting of the Board, the project, operationally, had been going better and the HM Treasury's Report had been broadly positive in its conclusions as regards the project and ICL Pathway's role, although commercial negotiations to enable ICL to make an appropriate return would have to take place if the project proceeded.

Mr Todd said he was writing to Ministers, who were expected to meet on 30th July, to raise the subject of the way forward. He would point out the difficulties for ICL of further delay or an outcome from the Ministerial meeting or from any subsequent negotiations,

GRO

COMPANY SECRET

which was not favourable to the Company, such an adverse outcome would make it difficult for us to gain further external finance for the project, and Fujitsu's resources were limited. Failing a satisfactory outcome, ICL would have to consider stopping work on the project at the end of September. The Board endorsed this approach.

- c) On the **GRO** Mr Todd said there had been agreement in principle that ICL could negotiate a share of the value of this project on termination. **GRO** were advising on the value of this Internet related work, which could be significant.
- d) Good progress was being made with **GRO** and Mr Todd said that outside the original agreement, there were significant further opportunities with **GRO** based systems. These would be followed up.
- e) On the PFI bids/contracts, Mr Todd referred to the loss of the employment services opportunity where it would appear that we had got the pricing wrong, although possibly misled by the customer over the evaluation criteria. ICL was in a sole negotiator on the Magistrate Courts bid. The situation on the other bids, including those where we were competing with BT, was noted.
- f) The "One ICL" programme continued to unify the company and use of the new financial reporting information coming from the "Cube" system was, with "One ICL", providing a new basis to help improve business performance.

Mr Todd

98/24 FINANCIAL PERFORMANCE
AND HALF YEARLY ACCOUNTS

PLC/98/15
PLC/98/16

Mr Riesenfeld reported and there was a discussion.

- a) Year to date profit before tax was £18.5m, with the help of sale of Teamware Business to Fujitsu and profit from flotation of part of the Softbank business in Poland. Q2 had been disappointing although still in profit.

Revenue growth so far in 1998 had been 8.8%, 13% in Q1 and a disappointing 5% in Q2. Gross margins so far were better than last year.

GRO

COMPANY SECRET

- b) The new Cube reporting system showed the global business position for ICL by verticals (ICL divisions) by business offerings (products etc) and by geography (countries of operation). This should enable the company to concentrate on its best areas of business and Mr Todd added that the Cube should enable focus on external business performance rather than internal concerns about business inter-trading. This latter aim would be helped by management incentives based on Group profit rather than divisional results.
- c) Sir Peter advised that ICL pay great attention to how the business offerings should be described in the lead up to flotation and in the prospectus. How to handle the legacy systems particularly the substantial proportion of profit arising from them, was important. Mr Gillibrand emphasised that how these matters would be described in the prospectus was worth immediate attention. Mr Riesenfeld said that work was in fact going on the business description (and other elements) of the prospectus and this would be continually refined as the date got nearer.
- d) The names of ICL's top 20 customers were noted and included our reliance on business from **GRO** which was also a competitor. Mr Gillibrand commented that this was an unusual situation as EDS as our customer were in a position to know more about us than we knew about them, when competing.
- e) The Board noted the profit before tax for the various divisions and the problems in central Europe, ICL Retail (where some improvements were becoming clear) ICL Services and South Africa (considerably affected at present by exchange rates).
- f) Mr Todd and Mr Riesenfeld said they were still unhappy about the performance of the divisions in forecasting, in particular the profit forecasts for Quarter Three and the full year. Consequently they had applied a judgement that the Group profit would be more than the divisions' thought, and this was based on past years experience where this was generally the outcome. PbT for the year was therefore forecast at £58.7m which still showed the benefit of non-operational items but was significantly greater than last year. Mr Todd said that if this was achieved we would make a profit after tax and preference dividends etc on the first occasion for some considerable time.

GRO

COMPANY SECRET

Mr Todd/
Mr Riesenfeld/
Mr Christou

- g) The discussion again turned to flotation, with Sir Peter referring to valuation issues and dividend expectations. Mr Todd said the next Board meeting should review flotation prospects and the work being done, in some detail, including a first draft of sections of the prospectus. He added that we should be prepared to float earlier than our target of May 2000 if events and the Company's performance justified this. Mr Todd referred to the SEMA quotation where they appeared to be achieving a price/earnings ratio of 50 based on a profit after tax of £50m giving a £2.5bn value. ICL might be expected to achieve a P/E of at least 20.
- h) Mr Todd and Mr Riesenfeld referred to the unaudited half yearly accounts, prepared principally for the company's bankers under the agreements with them. The accounts showed a profit after tax, minority interest and preference dividends of £3.5m and borrowings of £305m including £160m relating specifically to Pathway. The Board approved the accounts and

RESOLVED

THAT the unaudited consolidated Profit and Loss Account for the six months ended 30th June 1998 and the unaudited consolidated Balance Sheet at 30th June 1998 be and are hereby approved and that any two Directors of the Company be and they are hereby authorised to sign the same on behalf of the Company.

98/25 IMPACT OF THE MERGER OF COOPERS AND LYBRAND AND PRICE WATERHOUSE AC/98/9

Coopers and Lybrand had merged with Price Waterhouse on 1st July. The merged firm, "PricewaterhouseCoopers" was a separate entity from the predecessor firms and consequently the appropriate procedure for the Company was to accept the resignation of Coopers and Lybrand as auditors, to be replaced by the Board with PricewaterhouseCoopers. At the time of the next Annual General Meeting in 1999, there would be further formalities concerning the re-appointment of PricewaterhouseCoopers. The Board agreed this course of action, the resignation of the auditors was accepted and the appointment of the new auditors agreed.

Secretary

GRO

COMPANY SECRET

98/26 ICL'S MARKETS

PLC/98/17

Mr Todd gave a presentation of market intelligence, which was being used by ICL for strategy, assessing product offerings and other matters. The Board discussed the material and it was noted that predictions for future growth of online services were a difficult area. Certainly business to business use of the Internet was growing considerably and consumer use was following. Digital television might become much more popular in the West and use of the Internet through digital television might consequently increase considerably. Sir Peter noted that a mild recession appeared to be coming in the UK and also perhaps in other countries, which might slow the growth trends. Mr Gillibrand commented that ICL's citizen-centric strategy should enable us to obtain further views on Internet growth etc, obtained by examining the online and other developments planned by our customers. Mr Naruto said that electronic commerce and business to business use of the Internet should be targets for ICL.

98/27 ACQUISITIONS AND DIVESTMENTS

Mr Todd referred to the proposed changes in the Corporate structure in South Africa which were still in negotiation. He added that the purchase of the UDB software business was proceeding and that ICL was negotiating to purchase a smartcard business in the US.

98/28 YEAR 2000 - COMPLIANCE OF INTERNAL SYSTEMS

PLC/98/19

Mr Rowley presented on the ICL Group Year 2000 programme, which included the compliance expected from our suppliers, our compliance to our customers and the status of the internal compliance plan for ICL's businesses and properties. Generally, good progress was being made on this complex and expensive (ICL's costs were expected to total around £40m) project. One particular problem was customer re-engagement, where it had become clear that the previous process for writing to our customers to point out what our responsibilities were and seek their acknowledgement, had not produced adequate information or assurances. Mr Todd was now writing to all ICL customers, totalling around 10,000. However this should result in ICL having a reliable database of all customers which the Company could hold centrally for future use.

GRO

COMPANY SECRET

Sir Peter referred to what he saw as the two most significant issues, namely the risks to business continuity at Year 2000 and the Company's liability to law suits.

Mr Todd/
Secretary

Mr Rowley would attend the next meeting of the Board to update on the situation and would include a report on the insurance cover ICL had obtained.

98/29 BOARD COMMITTEE MINUTES - PENSION POLICY
COMMITTEE MINUTES OF 10TH JULY 1998

The Minutes were noted.

98/30 DOCUMENTS SIGNED AND SEALED PLC/98/20a
PLC/98/20b

The Board agreed:

The signing of the documents dated 6 March 1998 to 30 June 1998 inclusive set out in the Register of Documents signed Under Hand.

The sealing of the documents numbered 75431-38, 75440-76122 and 75439 between 5 May 1998 and 30 June 1998 inclusive.

98/31 CHANGE OF ADDRESS

Mr Todd and the Secretary referred to a letter received from the Royal Mail saying that the postcode for the 26 Finsbury Square address was changing. This was a decision of Royal Mail over which the Company appeared to have no opportunity to disagree. The implication was that the formal Registered Address of the Company and UK subsidiaries had to change with considerable effects on all the stationery used in the UK. Mr Todd said that there was some time available to make the change and the Board approved the change, to take place on a date agreed by Mr Todd.

98/32 SHARE OPTION CERTIFICATES

The present grant of options to employees, approved by the Directors Remuneration Committee in March and May, necessitated issue of around a 1,000 share option certificates. So far these have been signed by a Director of the Company and by the Secretary and stamped with the Common Seal of the Company. Under the Articles of Association it was possible to dispense with the

GRO

COMPANY SECRET

signature by a Director of share option certificates and the Board agreed to do this for this and future grants of options provided that in regard to those certificates not in fact so signed by a Director, they were signed instead by any one of Mr R Christou, Mr S Riesenfeld and Ms F Colquhoun.

98/33 DATES OF NEXT MEETINGS

Next meeting of the Board will be held on 26 November 1998.

As regards 1999, arising out of the meeting of the Audit Committee, it was likely that the Board would have to meet around the end of April to approve the Company's results for the 15 months ending 31st March 1999. It was likely that Fujitsu would hold a Board meeting around the end of April at the same time as ICL so consequently consideration would be given to whether that ICL Board meeting should be held by video conference. The Secretary would fix the April date and other 1999 dates (earlier than April or later) as soon as possible.

Secretary

**GRO**