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Mr K Todd
Chief Executive
ICL plc
26 Finsbury Square
London EC2A 1DS

November 1998

I have now had the opportunity to consider in more detail and discuss with my colleagues the documents attached to your letter of 9 November.

2. Whilst I am pleased to see that you have made progress on the partnership proposal, the lack of movement on your part on the wider deal over the past two months is extremely discouraging, and there remains a wide gap between the two sides.

3. You state that you are now prepared to accept a loss of some £100m NPV (although you would also expect to offset any loss with income from the partnership with POCL). But this is accompanied by commercial proposals

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involving risk transfer which would be entirely unacceptable to the public sector, and would effectively see the public sector underwriting the whole deal. It would be unthinkable for the public sector to agree to anything remotely resembling these terms.

4. In contrast the public sector has gone out of its way to try to reach a commercial deal with you. In the discussions - facilitated by Graham Corbett - the public sector parties made substantial offers compared to the core case. We are clear in our mind that if an acceptable way forward is to be found ICL now has to make a speedy and decisive move to accommodate the public sector's position.

5. My colleagues and I are forced to conclude that the prospects of agreeing an acceptable basis for continuing this project have diminished substantially. In view of your failure to deliver on schedule and your unreasonable commercial demands we must consider what alternatives are available. But we do not want to break off discussions while any stone remains unturned, and so we are reluctantly prepared to give you until 9 December to reach heads of agreement with the public sector. But let me make it absolutely clear that if an acceptable deal cannot be struck by this date we will be forced without further discussion to move to our alternatives.

6. You should understand that we expect ICL to address the following:

- financing;
- acceptance testing;
- guaranteed volumes;
- the proposed contingency; and

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- increased prices.

7. Furthermore we would need assurances from your parent company, Fujitsu, that you will deliver and that you have adequate financing to take forward the project without transferring risk back to the public sector. It is simply not acceptable to us that you and they should be expecting the public sector to bail you out of the consequences of your own failure to perform.

8. We await your proposals.

9. I am copying this letter to Alistair Darling, Peter Mandelson, Jack Cunningham, Ian McCartney and Charlie Falconer, and to John Roberts and Peter Mathison.

STEPHEN BYERS