Company Secret

ICL PLC
International Computers Limited
ICL Global Investments Limited

Minutes of the Investment & Strategy Committee

Held at 1 pm on Wednesday 3rd February 1999
GRO

Present	Mr T K Todd	(Chairman)
	Mr M Naruto	
	Mr T Sekizawa	
	Mr R Christou	
	Mr H Kurokawa	
	Mr H Sakai	
	Mr T Yurino	
In attendance	Mr S Riesenfeld	
	Mr R F Scott	(Secretary)
	Mr M Aida	
	Mr Y Katsuya	
	Mr Y Sumida	
	Mr A Gibson	(items 6 & 7)
	Mr R M Hacking	(items 10 & 12)
	Mr J H Bennett	(item 5)
	Mr D A Wimpress	(item 8)
	Mr D Somerville	(item 8)
	Mr A Boswell	(item 9)
	Mr N R Hartnell	(item 4, 8 & 9)

POH-1575D

Mr Todd welcomed the Committee to the refurbished 4th floor at Observatory House, Slough with ICL's New World working arrangements. He said that the indications were that ICL people felt positive about New World and there was a good atmosphere for work in the building.

Action by: **99/1** **Minutes of Previous Meeting**

The Minutes of the meeting held on 25th November 1998 were approved as a correct record for signature by Mr Todd.

99/2 **Matters Arising**

98/52 – Year 2000 - Mr Todd said that Mr Rowley would be speaking to Mr Sakai to continue the liaison on Year 2000 issues between ICL and Fujitsu.

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98/56 – Project Q – It is noted that Project Q is not proceeding. Mr Todd said that Mr Strich wished to find a role with ICL in North America and he welcomed this.

99/3 Chief Executive's Report February 1999 PLC/99/1

Financial Performance and Borrowings PLC/99/2

Mr Todd then Mr Riesenfeld reported. Points noted:

a) Mr Todd said that he had told the BBC, ICL did not wish to continue in the interactive entertainment business as a risk sharing partner but would be prepared to run a paid managed service for them. An exceptional of £12m was being taken to cover the estimated remaining liabilities for the BBC on-line project.

b) Mr Todd referred to the visit of the Executive Management Committee to New York for the annual Directors' Strategy meeting. This had included visits to Credit Suisse/First Boston and Morgan Stanley as well as to the New York Stock Exchange and a presentation from Gartner thus giving ICL direct exposure to the finance community and the latest ideas on the IT services market there. Mr Todd said that Morgan Grenfell and Goldman Sachs were also likely to be included in ICL's discussions on an advisor for listing. Our thinking at present was a valuation of ICL between £2-3bn and a listing on the London Stock Exchange with subsidiary quotation in New York. The establishment in London of a segregated IT services sector, which already existed in New York, was helpful. Further discussions would take place on strategy and advisors through to March and Mr Todd would be briefing Fujitsu senior management thereafter.

Mr Todd

c) Mr Todd referred to his discussions with Mr Wright of Amdahl and Mr Pona of DMR on tactical matters.

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Mr Todd then referred to discussions involving potential competition between Amdahl or DMR, with ICL as they positioned themselves globally. A practical solution was necessary and as part of this Mr Todd was suggesting that ICL should adopt the Macroscope methodology from DMR. Also further discussions would take place on co-ordinating or rationalising sales effort within the Fujitsu family.

Mr Todd

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d) ICL's results for the 12 months to end December 1998 were gratifying with PbT increasing to £63m from £30m last year. Revenue had increased by 9.7% to £2.67bn. The Committee noted the figures in Euros and Mr Todd said while Sterling of course remained the official currency, in the Annual Report, announcements of results etc, key figures would be shown in Euros as well as Sterling. Mr Riesenfeld referred to the revenue performances of the individual businesses many of which were showing significant growth over last year. Mr Jones, Mr Christou and Mr Naruto were complimented on the increase in revenue in the African businesses. Mr Naruto would be visiting soon. Nine out of the eleven businesses had improved PbT on 1997.

e) The Committee noted the global business picture of ICL for the year 1998, the "Cube" which showed the business through the vertical streams, the business offerings and the geographies. Mr Todd said ICL was moving to manage the company by the Cube which was enabling a much sharper focus on the problems and the growth areas.

Mr Sekizawa subsequently commented that Cube seemed a good idea as a new tool for management control. At present he felt that the Fujitsu Limited company could not divide its business in this way and he would talk to Mr Akikusa about whether Fujitsu would think of using the Cube for the whole group. Mr Todd commented that ICL saw the Cube as important for presenting to the investor community and customers as well as for internal management control, but it was not easy to implement it.

f) The Committee noted the slide on public presentation of the results, which showed continuing and discontinued business performance separately. This would be used, as refined in due course, for the analysts/financial community. The PbT forecast by ICL for the Fujitsu accounts year for 1st April 1998 to 31st March 1999 was £56.8m and Mr Todd added that this was based on achieving the £5m PbT target in the present quarter. The budget commitment ICL was making to its shareholder for the full year 1999/2000 was £95m. However all of ICL management was committed to achieving around 6% on revenue for that year which would get the company into the £125-185m area. At the recent Klauser the management team had been enthusiastic in targeting £200m for the 15 months from 1st January 1999 to 31st March 2000.

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g) Mr Riesenfeld explained the cash flow and borrowing situation. He divided borrowings into those for normal businesses and those for long term projects including Pathway. The normal business was basically cash neutral but over the year 1998 an additional £137m had been borrowed on major projects of which £108m was for Pathway. The Committee mentioned ways of raising money for major projects including securitisation of, for example, the VME licence stream. Mr Naruto would talk to Mr Takaya about this and emphasised it was an issue which had to be handled carefully. Mr Sakai added comments on the cost of major projects and referred to the need to control expenditure to increase PbT.

Mr Yurino/ Mr Naruto

In 1992, the Committee had laid down several internal limits on borrowings under various kinds of facilities and exposures. This internally applied control backed up the financial authorities granted to Mr Todd, Mr Riesenfeld and others by the Boards of Directors of ICL PLC and the major subsidiaries. Changes were now needed to be made to the Committee's authority of 1992, to reflect changes in funding philosophy and borrowing limits, particularly as a result of increased financing requirements on major projects. The information would be provided to Mr Naruto who would talk to Mr Takaya and a resolution would be circulated to the Committee members for signature, reflecting the agreed amendment.

Mr Riesenfeld/ Secretary

Separately, ICL was reviewing whether the externally, publicly notified borrowing limits shown in the ICL PLC Memorandum and Articles, needed to be changed and the Committee and if appropriate the Board and shareholder would be advised on this in due course.

Mr Riesenfeld/ Secretary

99/4 ICL's Listing

Mr Hartnell gave a presentation covering ICL's thinking on reasons to float, ideas on positioning, questions which would arise, the companies ICL could be compared with, the kind of listing envisaged, choice of advisors, some suggestions on how valuation would be looked at, and timing questions.

Among points covered in the subsequent discussion were the need to establish how ICL would fit within the Fujitsu family strategy for global business and the position in this also of other family members, Amdahl and DMR. The need for a consistent story from all partners was emphasised. ICL would be emphasising its position in the IT services business, with strong revenue growth experienced and in prospect. Mr Todd referred to the beneficial affect of the Microsoft alliance and Microsoft's interest in taking shares in ICL. This would be raised again nearer the time of flotation.

Mr Todd

Mr Sekizawa emphasised that when considering questions of what ICL strategy was for the US, the answer was that Fujitsu had a strategy for the US within its world global business positioning and ICL was empowered as part of the Fujitsu family within that strategy. Mr Naruto emphasised that the previous GRO backed up the strength of the GRO share price when GRO was a listed company. The same kind of arrangement would strengthen ICL. Mr Todd confirmed this, saying that he considered Fujitsu the best shareholder ICL could have as it understood ICL's business and was committed in the long term. Fujitsu intended to remain the majority shareholder and there would be no "take-over premium" in the ICL share price.

Mr Todd referred to his disappointment with Schroders as a financial advisor to ICL, arising out of their perceived conflict of interest over their relationship with the Post Office which had led them to be unhelpful on Pathway. Fortunately Hambros had been able to step into the breach. Also Schroders did not have an IT specialisation. The Committee were agreeable to ICL changing advisors, probably to one of those on the short list arising from those mentioned by Mr Hartnell, and Mr Todd, Mr Christou, Mr Hartnell and Mr Yurino would be taking the matter further. In due course Mr Todd would discuss ICL's recommendation with Mr Takaya. The Committee also noted Corporate Governance issues which would arise in relation to Fujitsu as a controlling shareholder, which was applicable with a holding of more than 30%. This would require discussion and negotiation between all parties including the Stock Exchange(s) in due course.

Mr Todd/
Mr Todd

99/8 Major Contracts and Bids – ICL Pathway project update PLC/99/3

Mr Todd, Mr Christou and Mr Bennett updated the Committee. Reference was made to the HM Government "Better Government" initiative and how ICL Pathway and the Post Office Horizon project could fulfil this opportunity. The Government itself strongly believed that services to the citizen should be delivered electronically. The "Better Government" initiative included direct access by citizens and businesses to Government, electronically. This matter is more fully covered in the attached report marked (A) which summarises the present state of "without prejudice" negotiations with HM Government.

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Mr Todd
Mr Gibs

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99/9 ICL Strategy on Mobile Communications ISC/99/5

Mr Hartnell with Mr Boswell presented on ICL's response to the latest developments in mobile communications. UMTS developments would drive massive changes in business processes and applications. There would be a convergence of fixed and mobile communications arising out of "G3". Licences would be auctioned in 1999 to operate G3 networks, particularly in Finland and the UK.

It was not proposed that ICL would bid for a licence but that we establish a highly skilled centre of excellence covering Finland and UK, and establish partnerships with licence holders and others we will be taking a technically neutral stance between Symbian and Microsoft, but seek to exploit ICL's capability to design, build and operate business solutions incorporating mobile capability. This approach was endorsed and ICL would keep in touch with other developments in the Fujitsu family via Mr Sakai's group.

Mr Hartnell/
Mr Boswell

99/10 Fujitsu ICIM Update ISC/99/10

Mr Hacking supplemented his paper. The Fujitsu Group stance would be that the sale of the system and engineering division by Fujitsu ICIM would be opposed whilst Fujitsu ICIM and Mr Goenka in particular refused to drop use of the Fujitsu name in the company title. Regarding possible sale of shares of Fujitsu and a proportion of the ICL holding to Jardine Fleming, ICL and Fujitsu would continue to consult on this. Mr Todd emphasised that ICL would remain in step with Fujitsu in this matter.

Mr Todd/
Mr Hacking

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99/16 Matters for ICL PLC Board of Directors

The Committee noted that the Audit Committee Minutes of the meeting on 26th November 1998 and a report on documents Signed and Sealed for ICL PLC, would be going to the ICL PLC Board meeting the following day, 4th February.

99/17 Dates of Next Meetings

12th May 1999
20th July 1999
24th November 1999