

**SECRETARY OF STATE'S MEETING WITH MR AKIKUSA (PRESIDENT OF FUJITSU) AND MR NARUTO (VICE CHAIRMAN OF FUJITSU AND CHAIRMAN OF ICL) TOKYO, 13 JUNE AT 1800.**

**Horizon: Post Office Automation Project**

**POINTS TO MAKE**

- I welcome this opportunity to discuss the Horizon project with Fujitsu.
- The past six months were very difficult for the UK Government - for Government Departments and for the Post Office. I very much appreciate how difficult they were for Fujitsu and for ICL as well. The UK Government is grateful for the support which Fujitsu itself continued to give to the project even during the dark days of a few weeks ago; and I wish to thank Naruto-san and his many colleagues here for that commitment.
- Accept that the outcome may not have been what ICL /Fujitsu had been hoping for, but given the delays and difficulties a reconfiguration of the project had become essential. What is now important is that the parties should work closely together to make a success of the project.
- Very pleased that it has been possible to reach an agreement in principle on the way forward for the project and look forward to finalisation of the agreement.
- We now have a three month period to see how we can make sure that the project proceeds. I shall be giving this matter my personal attention.
- It will be particularly important to ensure that there is no slippage in the timetable to roll-out of automation to all post offices by the end of 2001.

Automation is important for post offices to attract new business and provide better service to customers.

- Successful completion of the project is key to realisation of UK Government's objectives for modernisation of the post office network and benefit payment methods in post offices.
- Confident that post office network given its extensive reach and popularity will be well placed once it has an automated banking facility both to retain existing benefit customers and attract new customers.
- Post Office also needs to develop other new business. Hope that a constructive partnership with ICL will help the Post Office to develop new business exploiting the automated platform, such as delivery of electronic Government.

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### **BACKGROUND**

1. You met with Mr Sekizawa (Chairman, Fujitsu), Mr Naruto (Vice Chairman, Fujitsu and Chairman, ICL) along with Keith Todd, Richard Christou and George Hall from ICL on 14 May against a background of negotiations which had been taking place between HMG and ICL led by HM Treasury on a compromise solution involving removal of the benefit payment card.
2. At that meeting, Mr Sekizawa stressed that unless an unconditional agreement could be signed by 17 May, Fujitsu would have to accept a £306m provision in their consolidated group accounts. If that happened he would find it very difficult to justify to shareholders and analysts any course of action other than to walk away from the project and seek to recover the £300m development costs already incurred. The damage to ICL and to the prospects of its flotation next year would be substantial. You undertook that the Government would convey its decision to Fujitsu within that timescale.
3. Later that evening, Steve Robson wrote to ICL with a counter proposal requiring ICL to accept a loss estimated by ICL to be £250m. There is no doubt that when news of this offer reached Mr Sekizawa and Mr Naruto on their arrival in Japan there were strong feelings that the company had been betrayed by the British Government.
4. In the tense negotiations over the following days we know that it was your letter to Keith Todd of 21 May confirming the Government's wish to proceed with the project, and later the personal appeal to Mr Naruto by the Deputy Ambassador on your behalf that persuaded Fujitsu not to abandon the negotiations.
5. In the event, the agreement reached in the early hours of Monday 24 May enabled Fujitsu to avoid taking the full provision of £306m, but because of the loss which ICL are now expected to make over the life of the project as a whole Fujitsu's auditors insisted on a lesser provision of £150m. The final Fujitsu year-end result was a loss of Y13.6bn (£70m).
6. The calls by Mr Sekizawa and Mr Naruto will enable you to cement this important relationship but also to stress to Fujitsu that we now expect them to work constructively with the Post Office to finalise details of the agreement and to deliver the restructured project without further delays or difficulties. Fujitsu are clearly anxious to see a public/ private partnership develop between ICL and the Post Office to exploit the commercial potential of the Horizon platform since it is this hoped for 'upside' that could offset their loss on the basic project. The Post

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Office however will not wish to commit themselves too far at this stage, since ICL may not prove to be the optimum partner for the full range of possible applications.

**DTI/Postal Services Directorate**  
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