

COMPANY CONFIDENTIAL



PLC/97/8

7 May 1997

CHIEF EXECUTIVE'S REPORT - May 1997

1. Overview

Progress is being made on many fronts. The first quarter performance was ahead of budget but we were still in loss. We are winning new business: GRO

GRO I have been driving internally the message of ICL "one Company" - customer focused and have further strengthened the management team with the arrival of Fiona Colquhoun - Director, Human Resources.

Financial performance improvements will be achieved by increased sales energy and aspiration, driving my value pricing activity, controlling costs (staff and purchase) and redeploying staff behind higher value revenue earning opportunities.

We may still be addressing too many opportunities despite the refocusing we have already done. I am reassessing this.

2. Political

The recent UK election has clearly had wide coverage. My view is that there will be no shortage of business opportunity. I have already had a meeting with Frank Field - Minister of State for Social Security - on the Pension and Social Security Reform. The opportunity to accelerate our re-engineering proposition for DSS is improved. Also, the opportunities in the Education market are likely to increase as a more pro-active stance is taken by the Government on teacher retraining and exploiting the educational benefits of the new technologies. We are well placed to benefit from this.

3. Market

The business environment is still strong but we are seeing delays in the UK Government business, partly due to the Election, but more significant is the transformation of all major capital projects to PFI. This is causing initial delays in the procurement activity but also leads to contracts where revenue is spread over several years. This will, in the longer term, put ICL business on to a more predictable basis.

The "real" sales activity on Year 2000 projects and the Euro is increasing. The value of the business is small in the short term but will lead to larger contracts later this year. UK businesses appear to be waking up to the implications of the Euro!

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There is no significant change to the competitive environment. Our Retail business software offerings - global store and precision retailing - are particularly strong.

EDS has reported a weak set of results and have been receiving poor press in the UK for the increased 'cost' of the Inland Revenue contract and the volume of UK business they have won.

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There are an increasing number of major PFI activities which will result in contract awards in 1998. These are time consuming and costly to lead, but we are well placed to be successful as a credible alternative to EDS for these outsourcing contracts.

Estimated Contract Value

GRO

6. Financial Performance

	<u>Quarter 1</u>			<u>Half Year</u>			<u>Full Year</u>		
	<u>Act</u>	<u>B(W)</u> <u>Budg</u>	<u>B(W)</u> <u>LY</u>	<u>F'cst</u>	<u>B(W)</u> <u>Budg</u>	<u>B(W)</u> <u>LY</u>	<u>F'cst</u>	<u>B(W)</u> <u>Budg</u>	<u>B(W)</u> <u>LY</u>
Revenue*	576.0	(12.1)	0.6	1198.1	(19.1)	51.3	2692.2	(1.3)	310.4
PBT	(15.3)	7.4	(7.4)	(28.9)	(1.9)	4.2	25.0	-	27.6
Borrowings	83.8	74.9	91.2	174.6	(6.8)	(120.7)	258.1	7.8	(167.2)

*note: 1996 figure represents Systems and Services business only

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The first Quarter's performance was £7.4M better than budget - primarily due to increased shipments of large systems from HPS. Financial Services, Enterprises (Western & Central Europe), Retail, Pathway, ICL Interactive were ahead of budget in the quarter. We also benefited from one time profits and the amortisation of the UK Pension fund surplus.

The financial performance of TeamWARE, Tplc, Enterprises North, Services, Sorbus and South Africa were behind budget.

Compared to last year the High Performance Systems profit is down £7.3M. Shipments of SX systems are lower than last year in the quarter, as the new SY product release (now named Trimetra) will not be on general release until Q4.

Overall the performance was achieved by a tightening of costs control. There was no overall revenue growth. Tplc and Services did achieve good growth, but we are achieving less 'Book and Ship' revenue due to transition to long term contracts and as pilot phases of contracts are undertaken.

Although the divisions are not yet forecasting achieving the half year budget I expect the budget for the half year and full year to be achieved. The 'modus operandi' is, tight control of cost while driving additional revenue opportunities.

7. **Specific Issues**

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7.4. Services

The Outsourcing activities of ICL Sorbus and ICL CFM have been combined. This will produce a clearer focus for our capability. The education and consultancy activities have also been consolidated under David Wimpres. The financial performance is behind budget but the sharpened focus and market opportunity will produce increased revenue and profit this year.

The value added network service strategy has been discussed with Fujitsu and the business plan will be produced by June and presented to the July Board.

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7.5. Pathway

The latest release of the Pathway software has gone live (release 1b) last Friday. On schedule, however a significant amount of time was required to eliminate "software bugs", which meant that resource that was working on release 1c and 1d due in July had to be diverted to resolving the software issues. This additional work has an adverse impact on the development costs.

We have advised the customer that there could be a six week delay in the next release. The customer is appreciative of the open approach. Actions are in place to mitigate the consequence of delay i.e. National roll out starting in January 1998, rather than November 1997.

Although this delay is disappointing we do not see any issues ahead of us that cannot be resolved. The relationship with the customer, DSS, and Post Office is good, but they are concerned about the potential delay.

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8. Conclusion

To conclude, there is a lot of activity - there is no doubt about the opportunity to establish ICL as a leader in Systems and Services business in the new Information Society. Delivering the 1997 budgeted profit, and continuing to improve our long term prospects, is critical to building shareholder confidence and achieving the relisting in 1999.

Keith Todd