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COMPANY CONFIDENTIAL

CHIEF EXECUTIVE'S REPORT - July 1997

1. Overview

Progress continues with the half year PBT £8.8M ahead of budget and £14.9M ahead of last year, but we are still in loss (£18.2M). This first half profit improvement and the actions being implemented in each business will help underpin the full year budget profit before tax, £25M. Progress on the GRO and the acceleration of the TeamWARE business is progressing, but slower than I would like. We have identified some issues in the Pathway Project through the testing of Release 1C and a programme audit I instigated. Remedial action has been taken but an eight week slip has been declared to the customer for handover of Release 1C now due in October.

2. Political

The Bonn Ministerial Conference on the Information Society was held last week. I attended as part of the UK delegation; Naruto-san as part of the Japanese and Nortel were represented as part of the Canadian delegation.

The declarations are a valuable framework for government and industry to work together. The key outputs in my view were:

2.1. Recognition that Industry must lead the Information Society, with government legislation being minimal.

2.2. The application of technology to education was at the cornerstone of the Information Society.

2.3. The governments should declare a date by which their preferred basis for provision of services to the citizen and SME is electronic.

We are well placed to take advantage of the opportunities in education and provision of services. I am working on a proposal for the Commission (Martin Bangemann/Edith Cresson) on how to move forward in education from rhetoric to action.

FUJ00077835

The new UK government has continued to act aggressively. After a period of tension around Camelot, common-sense prevailed and the Camelot Board are in dialogue about the best way to proceed with the lottery when licence renewal comes up in 2001.

The effect of the budget actions on the elimination of ACT recovery for pensions funding is being assessed. In isolation it will reduce the surplus in the fund; this is offset by the corporation tax reduction and other favourable movements in valuation factors. In addition we are reviewing the implications of the ACT changes on our preference share issue to Fujitsu.

3. Market

The business environment is still strong. The delays in Government spending in the UK because of the political change continue due to reassessment by the new government of all programmes existing and future.

The Year 2000 opportunities are now starting to materialise and I believe we will see a significant increase in business activity from September.

We are focusing our energies on building a market awareness of "new" ICL in UK, Nordic, Holland and Central Europe, (Poland, Czech & Slovak Republic, Hungary, Romania). We need to do more work to expand the awareness of ICL through local events and press activity. The 'positioning' is around ICL leading in the Information Society.

4. Competition

The general environment is the same, however, it is becoming clear that EDS now see ICL as a major competitor. We will need to be careful in all our dealings as EDS are themselves under pressure following their profit warning and share price reduction.

We are seeing Computer Centre, who are a large PC distribution company, move into the provision of commodity services. They are setting new (lower) price points for technical services. I am having a full competitive assessment of their strength to assess what degree of threat they are to the traditional service companies.

FUJ00077835

GRO have confidentially approached me to see if we could work closely together across government in the UK. They would be happy for ICL to lead and would consider collaboration or JV. This is very sensitive and only three people in ICL are aware. Richard Christou and Richard Stokes are conducting an internal assessment.

5. <u>Strategic Suppliers</u>

5.1. <u>SUN</u>

I launched the ICL JAVA Centre of Excellence in Dublin last week. This is the focal point for the ICL/SUN JAVA collaboration and important in the new world. The distribution business continues to go well with Ireland signing a new agreement. We will sell about £100M of SUN equipment in 1997.

5.2. <u>Microsoft</u>

The Microsoft NT Centre of Excellence is going well with no capacity currently left. We have nearly 100 trained. We are planning on opening a similar centre in Scandinavia.

I met with Steve Ballmer in Seattle in June for my biannual review. He is pleased with progress between ICL and Microsoft (and said so in an interview with Newsweek magazine). We are specifically focusing on:

i. The UK government opportunity where Microsoft have said they will work with us "exclusively".

ii. Review opportunities for them to contribute to GRO

iii. Retail and education markets.

5.3. <u>Fujitsu</u>

5.3.1. <u>Retail</u>. Good progress on a common software strategy for Global Store Precision Retail. The profitability of our retail hardware collaboration needs resolving.

5.3.2. <u>Financial Services</u>. Developing an effective ATM strategy for the USA and Europe and our approach to electronic commerce. More work is needed on this.

FUJ00077835

5.3.3. <u>Hardware Server Strategy.</u> We need to agree an appropriate strategy to avoid duplicated investment and achieve a common marketing story for ICL and Fujitsu. This needs to cover UNIX, NT and Intel SPARC. The driver from my view is to avoid confusing our customers and saving money.

5.3.4. <u>TeamWARE</u>. Progress has been made on stabilising the product issues and releases for 1997. An approach to coordinating product development strategy and sales and marketing strategy has been agreed. We are not however making progress quickly enough, the forward product strategy and marketing messages are not yet sharp enough and the US strategy is not fully developed. The work with GRO is being progressed. The business needs to be led aggressively from an American base.

5.5.5. <u>Software</u>

ICL and Fujitsu have a number of competing and complimentary software products. (ICL's products include: i500, DAIS, Dialogue Manager, Commands, Document Management, Process Wise).

We have not been able to coordinate the investment and marketing strategies for their products. We need to avoid market confusion and reduce costs. An open minded approach should be taken by those involved in the assessment.

6. <u>Orders</u>

GRO

GRO I met with Ann Bowtell to review ICL and the DSS. Progress was regarded by her as good in dealing with the settlement of the ASSIST issue, but clearly the news of the delay on Pathway is of concern. I briefed her on the issues and actions taken.

FUJ00077835

7. Financial Performance

	QUARTER 1			HALF YEAR			FULL YEAR		
	ACT	B/(W) BDGT	B/(W) LYR	ACT	B/(W) BDGT	B/(W) LYR	FCST	B/(W) BDGT	B/(W) LYR
Revenue	576.0	(12.1)	(162.0)	1189.1	(28.1)	(260.6)	2659.6	(37.9)	(144.2)
PBT	(15.3)	7.4	7.4	(18.2)	8.8	14.9	25.0	-	27.6
Borrowings	83.8	74.9	91.2	159.6	8.2	(105.7)	238.5	27.4	(147.6)

As stated earlier the half year PBT is £8.8M ahead of budget. The improvement has largely come from reduced costs and the contribution from increased sales of HPS mainframe products (compared to budget) offsetting lower than budget performance in TeamWARE, Retail, Sorbus, Services and South Africa.

Tplc, Enterprises, Financial Services, Retail have improved their profit performance compared to last year. The major adverse profit performances compared to last year were: High Performance Systems - where the mainframe profit is reducing, although they are ahead of budget. The new product range, Trimetra (CMOS mainframe) will be released in Q3-Q4. The first customers are running "live" loads successfully.

Sorbus profit is substantially down on last year (£11M) due to the competition on proprietary maintenance revenues and lower maintenance prices from the newer product ranges. The improvement in profitability for Sorbus is dependent on re-engineering the pan European approach to service delivery and with more global OEM and customer deals.

South African performance is disappointing and has undoubtedly been affected by doubts about the ownership structure.

We have now bought out the Malbak investment. This has helped take the market issues away and will allow us to reconstruct the company and shareholding to meet the new black empowerment opportunities.

The full year forecast of £25M is achievable. There is a lot of work to do to ensure it is underpinned but the first half over achievement clearly helps.

8. Pathway

Following the completion of the internal audit and the results of the early Release 1C tests we have declared an eight weeks slip. This in effect means that the 1C deliverable would be 15 weeks later than expected.

The project issues are being addressed with strengthening of the programme management, technical support and increase in project resource to address the volume of test issues.

The reasons for the delay are rooted in the long delay in agreeing the delivery spec, specifically the security environment was not agreed until the end of April and the multiple additional interfaces into the customer's systems.

There are clearly lessons to be learned from this project for future PFI projects and these will be shared with the customer. The priority is to ensure the project implementation goes in effectively and the customer confidence is restored.

I have briefed the head of DSS, Benefits Agency and Post Office Counters personally with the project team, in parallel with the project activity to deliver 1C in October and Release 2 in March. We are assessing the implications on the overall programme with the customer.

9. Medium Term Profit Improvement (1998-2000)

The priority is to deliver the budget, £25M. We will, over the short term, continue to take a "stingy" attitude to cost and target short term revenues. However improvement in the underlying profitability will come from:

9.1. Elimination of loss making business

9.2. Resolving internal "hot spots", e.g.

- single client relationship management to major customers - supported by specialist sales teams.
- simplifying inter-trading rules
- eliminating duplicated ICL offerings, e.g. document management, technical service skills centres.

9.3. Achieving a Breakthrough (fundamental change) in the following:

FUJ00077835

9.3.1. Customer Satisfaction. We have made progress; the customer satisfaction score averaged is 6.4. Achievement within three years of 9+ will transform our customer relationship and allow for "premium pricing" opportunities. Specific actions are in place for each customer as we complete the customer satisfaction interview programme.

9.3.2. People. We need a "new deal" for the ICL work force. They must be skilled, work as teams, have the tools and access to knowledge to allow them to do a superior job. This will be achieved by the effective roll-out of TeamWARE, Goldeneye (the new network infrastructure programme) and Project VIK (my knowledge management activity). These, together with some changes to the rewards and obligation of the employees, are intended to produce a highly effective and motivated work force.

9.3.3. Margin Improvement. Clearly dramatic improvements in both customer satisfaction and people effectiveness will in itself improve margins.

Two other activities are also key:

- Value Pricing. We need to be able to demonstrate the value of the technology proposals we make to the customers and strengthen our negotiations defending our offering on its benefits to the customer and against the competition.

- Purchasing. We have to be able to leverage our total group muscle to achieve better (low cost) deals with all our suppliers. We have a base line position and have made some savings. More are necessary.

These activities are underpinned with various programmes in the Business Units and are linked to my review activity. Success on these will mean that we permanently reverse the profit downward slide from the "old world" revenue streams and create highly profitable systems and services offerings in the "new world".

Keith Todd