

COMPANY SECRET

ICL PLC
MEETING OF THE BOARD OF DIRECTORS

Held at
26 FINSBURY SQUARE, LONDON, EC2A 1DS
on Thursday, 28 May 1998

at 10.00 am

PRESENT: Mr M Naruto (Chairman)
Sir Peter Bonfield (Deputy Chairman)
Mr T K Todd (Chief Executive)
Mr T Furukawa
Mr W K Gardener (alternate for Mr J C Monty)
Mr J J Ollila
Mr H Sakai
Mr H Watanabe

IN
ATTENDANCE: Mr S Riesenfeld
Mr R F Scott (Secretary)
Mr T Yurino
Mr Y Sumida
Mr J H Bennett (Item 17)

Apologies for absence were received from Vicomte Davignon,
Mr K Fukagawa, Mr J C Monty.

Sir Peter assisted Mr Naruto with the Meeting.

Action by:

98/12 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 12 March 1998
were approved as a correct record and signed by
Sir Peter.

98/13 CHIEF EXECUTIVE'S REPORT AND
FINANCIAL PERFORMANCE

PLC/98/7
PLC/98/8

Mr Todd expanded on his written report, Mr
Riesenfeld gave a presentation on performance and
there was a discussion. Points arising:

- a) Mr Todd referred to the encouraging first quarter
results where a profit had been made for the
first time since 1994. Quarterly budgeting
seemed to be helping. However ICL was still not
good at forecasting. This had to be improved and
perhaps this might begin to happen as a result of
building an order backlog. The most difficult

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area for ICL's trading was the Retail business where it would help to sell more ICL products, particularly hardware, to our existing Retail customers.

- b) Mr Todd reported on ICL's biggest project, the **Pathway programme** to establish an electronic benefits payment system through PCs in all of the UK Post Offices. The project was now considerably delayed. ICL believed the principal cause of this was the incompatibility or unpreparedness of the UK Government's electronic systems which Pathway was dependent on. Another difficulty was that ICL was working for two customers, **Post Office Counters Limited** and the Department of Social Security Benefits Agency.

A review of the programme was being conducted by H M Treasury and this was likely to consider commercial aspects as well as the reasons for the delays and other matters. A report was likely to be issued around 22 June. Mr Todd said he believed the outcome of the review would be a realistic acceptance of the situation and a positive plan for going forward which should include, for ICL, a longer contract period with appropriate pricing, enabling the company to make a profit. He added however that should the review, and the stance of Ministers based on it, result in action unfavourable to ICL then not only might the company take legal action (ICL believed it would have a good case), but also Mr Todd would reconsider the company's preparedness to take with other IT related public finance initiative contracts. As well as ICL's position, the credibility of the Government in IT/PFI contracts was at stake. (See also Pathway report by Mr Bennett - minute 98/17 below.)

- c) Mr Todd referred to ICL's partnership with Microsoft, which had just been successfully announced. This would be good for ICL staff and for ICL customers. The arrangement, which was non-exclusive and would allow flexibility on both sides, involved collaboration with software products in four 'go to market' areas (Retail, Education, Infrastructure and Public Sector), and training of ICL staff on Microsoft skills. This investment by **IRRELEVANT** would be repaid on the basis of royalty payments by ICL on sales of the products in and following the Year 2000. Sir Peter said the Board hoped to see the result of the partnership in the revenue and profits streams of ICL, as quickly as possible.

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- d) Mr Todd then referred to other major contracts and bids, particularly in relation to the UK Government **IRRELEVANT** ICL was hopeful on most of the major PFI bids we were involved in but unfortunately the **IRRELEVANT** Services contract had just been lost to **IRRELEVANT** probably on price. Mr Todd and Sir Peter would discuss the bid debrief in due course **Irrelevant** had been ICL's partner in the bid). It was noted in respect of Sir Peter that **Irrelevant** was ICL's competitor in some of the other major bids in contention at present.
- e) Following some years during which the ICL brand had been shown in five colours, the company was about to standardise on the 'ICL' letters in the same shade of red used by Fujitsu. This would reflect the company's one identity as a systems and service provider.
- f) Mr Naruto said he believed the ICL employees and management were more confident than in 1997 and keen to bring about further improvements in business performance leading to flotation.
- g) Mr Riesenfeld presented on the ICL results for the first quarter of 1998, and on the forecast for the first half and for the full year. Profit before tax (PbT) for quarter 1 had been £11.3m and this had included £11.2m non operational profit from the transfer of the **IRRELEVANT** to Fujitsu. Therefore, albeit at a small level, ICL had made a profit in the first quarter for the first time since 1994. Reasonably good revenue growth was being experienced in almost all of the businesses, with the exception of **Irrelevant** In that country, ICL was taking action to remedy the principal problem which was
- # Irrelevant
- h) The **IRRELEVANT** offering backed by the company's technology was proving popular but significant advertising revenue was yet to be earned. Discussions were taking place on how the Company could benefit, including the possibility of a share in a joint venture for ICL or a compensatory payment if the **IRRELEVANT** went to another partner at the end of the contract.

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i)

IRRELEVANT

Mr Todd

contracts. ICL Financial Services had been successful this year so far, based mainly on sales of ICL mainframes into its customer base.

The company's major trading problem was in the **IRRELEVANT** had been lost in the first quarter. Mr Todd said it would be necessary, as a short term improvement, to increase sales of other ICL products such as PCs and mainframes into the Retail customer base. Over the medium to longer term Mr Todd was confident that ICL's software - **IRRELEVANT** and precision retailing, for this market, would prove successful.

- j) Mr Todd said that the forecast profits from the businesses for the half year and the full year forecast were not acceptable to him. In particular the full year PbT of £42m included £18m non operational items such as **IRRELEVANT** profit from the sale of shares in the company's

IRRELEVANT

was significantly below the present indicative budget of £40m and still further below the stretch target necessary for a step on the road to flotation, of £75m. Mr Todd said that much work remained to be done, although ICL's forecasting was not at present reliable and he expected the actual outturn to be better than the forecast presented.

k) Mr Riesenfeld

Mr Riesenfeld would present more figures relating to the balance sheet, from the next meeting onwards. It was noted that cash flow deteriorations in Q1 were however as a result of project funding, particularly **Pathway**, rather than from trading. These would be shown separately in future.

Mr Riesenfeld

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- 1) Mr Riesenfeld showed slides of a new approach to reporting ICL's management accounts figures, showing a 3-Dimensional matrix of the company's offerings, made to the markets we were in, by the geographies used. Use of this format in future would enable greater targeting on both successful areas (to increase investments) and unsuccessful areas (to wind down or cease).

Mr Riesenfeld

Mr Riesenfeld would send details of working capital for this year and last year to Mr Ollila.

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IRRELEVANT

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98/15 BOARD COMMITTEES

Mr Todd

The Board noted the minutes of the Pensions Policy Committee held on 17 April 1998 and of the Audit Committee held on 12 March 1998. In connection with the Audit Committee minutes, it was agreed that each meeting of the Board would be given a report on progress towards conformance regarding Year 2000 issues. Mr Todd added that ICL was going back to its major customers to ask for their confirmation that, if it was the case, they required no further help with the Year 2000 issues. This was so that the Company would have written confirmation on file.

98/16 UPDATED ON POTENTIAL ACQUISITION AND DIVESTMENTS**IRRELEVANT**98/17 ICL PATHWAY UPDATE

PLC/98/10

Mr J H Bennett updated the Board on operational aspects of the programme and there was further discussion about the H M Treasury review of the Pathway project.

A significant focal point on the project milestones was January 25 1999, start of live trials of new release 2 of the system. This tested not only Pathway, but the DSS systems and all the other feeders to the project. Live national roll-out of new release 2 would then take place from April 1999. Regarding the H M Treasury review, Mr Bennett reiterated that ICL's ambition was an extension of the contract of at least five years and a revenue target of £180m per annum.

98/18 DOCUMENTS SIGNED AND SEALED

PLC/98/12a & b

The Board agreed:

The signing of the documents dated 23 January to 19 May 1998 inclusive set out in the Register of Documents signed Under Hand.

The sealing of the document numbered 75430, noted in the Register of Documents sealed, between 23 January to 19 May 1998.

98/19 DATES OF NEXT MEETINGS

23 July 1998
26 November 1998

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23.7.98.

~~23.7.98.~~