

Company Secret**ICL PLC****Minutes of the Board of Directors**

Held at 2pm on Thursday 26th November 1998
26 Finsbury Square, London, EC2A 1DS

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|---------------|--------------------|-------------------|
| Present | Mr M Naruto | (Chairman) |
| | Sir Peter Bonfield | (Deputy Chairman) |
| | Mr T K Todd | (Chief Executive) |
| | Mr T Sekizawa | |
| | Vicomte Davignon | |
| | Mr S Gillibrand | |
| | Mr H Kurokawa | |
| | Mr H Sakai | |
| In attendance | Mr S Riesenfeld | |
| | Mr R F Scott | (Secretary) |
| | Mr M Aida | |
| | Mr T Yurino | |
| | Mr Y Katsuya | |
| | Mr R Strich | (Item 37) |
| | Sir Michael Butler | (Item 38) |
| | Mr R Christou | (Item 38) |
| | Mr J Bennett | (Item 38) |

Apologies for absence were received from Mr J J Ollila.

The meeting followed a presentation from Mr K Kontinen of MeritaNordbanken, an ICL customer and discussions over lunch.

Sir Peter assisted Mr Naruto with the meeting.

On behalf of the Board, Mr Naruto welcomed Mr Sekizawa to his first meeting.

Action by: 98/34 Committee Membership

Mr Naruto asked the Board to appoint Mr Takaya to be a member of the Directors' Remuneration Committee in place of Mr Sekizawa. This was approved.

98/35 Minutes of previous meeting

The Minutes of the meeting held on 23rd July 1998 were approved as a correct record and signed by Sir Peter.

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|--------------|---|------------------|
| 98/36 | Chief Executive's Report – November 1998 | PLC/98/21 |
| | Financial Performance | PLC/98/22 |
| | 1999 Budget | PLC/98/24 |
| | ICL's Strategic Plan 1999 to 2003 | PLC/98/29 |
| | ICL's Markets | PLC/98/23 |

Mr Todd and Mr Riesenfeld explained certain of the matters covered in the papers and there were discussions. Points noted:

- a) Expanding on the Chief Executive's report, Mr Todd referred to the market circumstances, and ICL's competitors. He referred to significant contracts ICL had won or was bidding for including the DTI ELGAR contract, the DSS Accord bid and the UK Magistrates Courts. ICL was expected to bid for a significant contract with the UK Customs & Excise, in competition with BT and Sir Peter's interest was noted. On the BBC, Mr Todd said the Corporation seemed to have difficulty in deciding where to draw the line between public service broadcasting and its internet commercial activities. ICL was not prepared to go beyond the end of 1998 with the existing contract even if this meant stopping work on BBC Online.
- b) Mr Riesenfeld referred to the performance of the ICL businesses where eight of the twelve were improving on last year. At High Performance Systems, the Trimetra product had been a big success. The difficulties with the services portfolio of businesses including the proposals to divest ECRC were noted.
- c) A distinction between profits on continuing, and discontinued, operations would be given in the Board papers from now on, as this showed how market and analysts would view ICL. Mr Naruto said the Board should consider which businesses should fall in which area. The 1998 forecast operating profit before rationalisation expenditure was £55.6m and Mr Todd said, although he was not giving a firm commitment, that ICL was trying strenuously to raise this to around £70m at least

Mr Riesenfeld

Mr Todd

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- d) The Board noted the proposed 1999/00 budget showing proposed revenue growth over 1998/99 of 14.4%, operating profit of £115m (which was 3.7% of revenue) and profit before tax of £95m. Mr Todd said ICL intended to achieve 6% on revenue in the year 2000 and following flotation should rise to 7%, 8% then 9%.

The profile of the Company's borrowings were noted, with the major projects, particularly Pathway, consuming a major proportion.

Mr Todd

- e) ICL's strategic plan 1999/2003 was introduced by Mr Todd, including the descriptions of ICL's core offerings, the business model and non-core activities identified for managed withdrawal. Both the budget and the strategic plan would be discussed and agreed with Fujitsu as major shareholder and the Board endorsed them on this basis.

Mr Todd

- f) It was agreed the next Board meeting would consider the flotation strategy in some detail. It was important to establish whether ICL's projected performance would enable the float, and whether the company would be a risk stock, a growth stock or high dividend. Also it was important now to establish the shareholder's expectations for ICL.

Further discussion took place on ICL's position in the marketplace. For example the development of "Euroland" might have significant effects on markets (possibly leading to increased worldwide demand for very large European stocks and reduced demands for medium size ones, which might include ICL). Therefore it would be important for the Board to consider whether a single company flotation was the answer or whether ICL's and its shareholder's goals might be achieved by a different strategy, for example, merger.

Mr Todd added he had recently been unhappy with the performance of Schroders over the Pathway contract where they perceived a conflict of interest (and how they handled it), and he was developing a successful working relationship with Hambros. He said he may in future be recommending to the Board that a US financial adviser be appointed and that the role and choice of the UK financial adviser be reviewed.

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98/37

Project Q

Mr Strich presented on ICL's proposals to seize the opportunity to become the trusted personal information broker for the individual by collecting available personal information about him, providing the information collected in return for the right to be his collective bargaining agent for personal information, eliminating other personal information collection and distribution sources to increase the value of information, and rewarding the individual for allowing this. It was planned that the project would establish a global brand that promised inclusive collective power based on control over collection, storage and distribution of personal information.

Mr Todd recommended the proposal and the Board discussed it. It was noted that there were similarities between Q and Project iMi of Fujitsu and Mr Strich would be talking to Fujitsu.

It was estimated that Q would require \$110m of investment and the options were that Fujitsu/ICL embark on this by itself, or that the project was for three to five selected investment partners, or for a larger number of eight to ten investment partners. The recommended proposal was that ICL would be one of three to five partners in the project, with ultimately a \$30m investment and around 23% ownership. \$1m had been committed by ICL to-date and \$10m was requested for commitment in the quarter beginning 1st January 1999. Mr Todd recommended that Mr Naruto, Mr Sekizawa and himself be delegated power to agree this first \$11m of funding.

Sir Peter commented that Q was an interesting concept. As with such an idea, success would in a significant part depend on the competition and the market which developed. It would be important to structure Q with minimal initial cost to ICL but maximum return on e.g. sale, float, etc. Mr Gillibrand said Q would require a fast moving pro-active entrepreneurial approach and he wondered if a sizeable organisation such as ICL could move fast enough. Also the legal framework affecting Q (e.g. as regards information over the internet, individual privacy etc) might change, affecting success. However Q could be an exciting prospect as e.g. part of ICL's portfolio on listing.

The delegation to Mr Naruto, Mr Sekizawa and Mr Todd was approved.

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Company Secret**98/38****ICL Pathway****PLC/98/25**

Mr Bennett then Mr Christou presented and Sir Michael Butler reported. There was then a lengthy discussion. Points noted were:

- a) Mr Bennett reported encouraging operational progress with the live service in 204 Post Offices. Those who saw demonstrations of the system continued to be impressed.
- b) Mr Christou and Sir Michael reported on the without prejudice negotiations which had taken place with Government to resolve the project dispute. The contents of the without prejudice negotiations are briefly summarised in the attached report marked (A). This report is to be submitted to Masons for the purpose of obtaining urgent legal advice as to the merits/risks of proceeding with litigation against the background of the commercial negotiations set out in the report.

98/39**Year 2000 – Update****PLC/98/26**

The Board noted the paper and sent their thanks to Ms Beaton and Mr Rowley who, because of the time necessarily taken over the discussion on Pathway, had not been able to present.

98/40**Acquisitions and Divestments**

Mr Todd referred to proposals to divest ECRC, an internet related business in Germany, and the health business in Holland.

98/41**Pension Policy Committee Minutes
& Audit Committee Minutes**

These were noted.

98/42**Documents signed and sealed**

The Board agreed:

The signing of the documents dated 1st July to 11th November inclusive set out in the Register of Documents signed Under Hand.

The sealing of the documents numbered 76123 to 76128, between 1st July to 11th November inclusive set out in the Register of Documents Sealed.

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98/43 Half Yearly Preference Share Dividend

RESOLVED

- a) THAT a net dividend of £3,879,671.70 exclusive of associated tax credit in respect of the period ending 1 January 1999 on the Company's 83,655,600 9.15% net Cumulative Convertible Redeemable Preference shares be declared on 2 January 1999 to the holders of the said shares registered at the close of business on 19 December 1998. Such dividend will be paid at a future date that Mr Todd and Mr Yurino shall agree.
- b) THAT a net dividend of £3,879,671.70 exclusive of associated tax credit in respect of the period ending 1 January 1999 on the Company's 83,655,600 9.15% net Cumulative holders of the said shares registered at the close of business on 19 December 1998. Such dividend will be paid at a future date that Mr Todd and Mr Yurino shall agree.

98/44 Date of next meeting

After discussion it was agreed that the next meeting of the Board should be 4th February, but it was likely to be a morning meeting (probably with the Directors' Remuneration Committee taking place after lunch). Due to the Audit schedule, there was unlikely to be a meeting of the Audit Committee on 4 February and a date was being considered between 21 and 23 or 26 April instead.

The meeting on 13 May was confirmed and July and November dates of Board meetings were still under discussion. (Subsequently set as 21 July and 25 November.)

GRO

Privileged
Made in contemplation of litigation
(contains without prejudice material)

Report (A) – ICL Pathway

Introduction

This is an up to-date report on the without prejudice negotiations between ICL Pathway and the Government in order to resolve the project dispute. This report has been created for the purpose of seeking Mason's views on the question of proceeding to litigation rather than continue negotiations.

Without Prejudice Negotiations

- a) The HM Treasury Independent Panel findings, and the Independent Advisor's recommendations which, if accepted, would have led to ICL incurring a loss of £225m (net present value) even with an extended contract, and ICL signing away its legal rights. Consequently the Advisor's proposals had been rejected. A strongly worded letter had been received from Government which did however say that if new arrangements could be proposed with Post Office Counters Ltd (POCL) alone, this could be a way forward. Therefore new proposals, including plans for substantial (but hard to accurately quantify) future business with POCL, a price increase, revised acceptance procedures and funding changes, the effect of which proposals was a lessening loss for ICL had been put forward on 9th November only to be rejected by Government. The new opportunities for future business would have come from Government plans for Better Government (improved contact with the citizen etc) together with other opportunities POCL and Pathway might develop.

Government's rejection indicated a basis for further negotiations up to their imposed closing date of 9th December. They also wished assurances that Fujitsu would stand behind any agreed revised contract.

- b) Sir Michael believes that the DSS are being difficult over this matter and believes that they misled ICL into believing their CAPS system would integrate successfully on the appropriate timescales with the Pathway project to enable the project to proceed without the delays which had now occurred.
- c) It is considered that the Government/Independent Advisor proposals are unacceptable. They incorporated a net present value loss of £225m which was equivalent to over £500m undiscounted. Mr Naruto believes that it is ridiculous to expect the commercial concern to borrow up to £600m to fund a contract with a loss of £500m. ICL/Pathway would have to negotiate against this unacceptable situation and if possible avoiding litigation, to achieve a much better outcome although possibly not by 9th December, a deadline which, it was felt need not apply to us.

GRO

Privileged
Made in contemplation of litigation
(contains without prejudice material)

It is important to reach Ministers to obtain an overarching Government view in the light of all the factors including political matters such as the future of the Post Office. However Ministers, who were cordial and businesslike on other matters, were avoiding ICL over Pathway, possibly as a negotiating tactic.

Mr Naruto (when advised by Mr Todd) is to approach the British Ambassador in Tokyo to point out the unfairness of the treatment of the Fujitsu/ICL group on this matter. Sir Michael is to make the representations to Government.

There is the need to minimise the loss to the Fujitsu/ICL group including the effect on other ICL Government business. Here, others in ICL could contribute with their views on the effects they would see from, for example, termination. The Post Office's activities are a concern— because the Post Office performs a public service function with effectively some services free to the community, does this mean that the Post Office expects its suppliers to provide their services uneconomically? There are doubts over the amount of work ICL could obtain from POCL in future and what this would represent. Any contractual changes proposed must be carefully weighed.

It would be important to emphasise to Government the total resolve of ICL's Board, shareholder and executives to achieve a fair commercial decision but if not the determination to litigate. Reference to the Board should be made in future to strengthen our representations on this resolve to the Government, and on the course ICL Pathway would pursue after 9th December if negotiations failed by then.

- d) The significance of this issue to ICL and its flotation plans should not be understated and the financial/accounts consequences would have to be considered carefully balancing for example the desirability of taking the losses/costs as soon as possible (to clear the decks for flotation) against the effects on profits.
- e) In order to reach a solution Mr Naruto, Mr Sekizawa and Mr Todd, who would supervise Mr Christou, Sir Michael and Mr Bennett are delegated to deal with the matter.
- f) The Pathway project is ICL's largest and most significant contract and stopping the project now would be regarded as an admission of failure. Although the Board does not wish to be involved in litigation if at all possible there is a point beyond which the Board will not go. It is believed that ICL has good grounds for litigation with a view to obtaining significant compensation and Masons' views are sought in this matter.

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