

Company Secret

ICL PLC

Minutes of the Board of Directors

Held at 08.30 am on Thursday 4th February 1999
Observatory House, Slough

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 J J Ollila	
	Mr H Sakai	

In attendance	Mr R F Scott	(Secretary)
	Mr M Aida	
	Mr T Yurino	
	Mr Y Katsuya	
	Mr N Hartnell	(Item 3)
	Sir Michael Butler	(Item 4)
	Mr R Christou	(Item 4)
	Mr J Bennett	(Item 4)

The meeting followed by a discussion over lunch with Mr J Sacher of Marks & Spencer, an ICL customer, principally on E-Commerce.

Sir Peter assisted Mr Naruto with the meeting.

Action by: 99/1

Minutes of previous meeting

The Minutes of the meeting held on 26th November 1998 were approved as a correct record and signed by Sir Peter.

99/2

Chief Executive's Report – February 1999

PLC/99/1

Financial Performance

PLC/99/2

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

- a) Mr Todd referred to recent work to refine the ICL business plan and particularly to the four "go to market areas" which comprised the offerings ICL was taking to the marketplace. These were the IT Utility, specific

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intellectual property rights applications e.g. ERP systems or Globalstore, and two offerings representing areas of corporate advantage namely electronic commerce and customer relationship management.

- b) He reminded the Board that the present financial period, for the ICL PLC accounts, ended on 31st March 1999 and the company was at present in the 5th quarter of the fifteen month period.
- c) Profit before Tax for the 12 months to end December 1998 was £63m, the target or commitment to Fujitsu for the 5th quarter was £5m and for the 12 months ending 31st March 2000, £95m. ICL's own internal commitment on profit was substantially higher at £15m for the 5th quarter and £185m for the 12 months. Mr Todd mentioned the functional alignment exercise to reduce the cost base which it was hoped would increase profits by £40m (as part of £5m/£95m or £15m/£185m).
- d) Total ICL revenue for the year to December 1998 was £2.67bn, an increase of 9.7% on the previous year. PbT of £63m had been struck after some "exceptionals" such as disposal of the shares in ECRC at a profit of £23m, provisions and other exceptional charges. The Board noted the profit and loss figures translated into Euros for the first time and Mr Todd said that the annual report and accounts for the 15 months to end March 1999 would show Euro comparison for key figures.
- e) The Board noted the performance of the individual ICL businesses including High Performance Systems and Multi Vendor Computing in particular. The Board saw the global business picture for the year to date end December, the ICL "Cube" which reported the business in three dimensions: verticals (i.e. businesses such as Retail, Financial Services etc) the business offerings, and by geography (countries). This was proving a useful means of management control of ICL and would be shown at future Board meetings. Mr Todd referred to the businesses in France (which were going into profit) and Denmark (where there had been a disappointing performance of £3m loss in 1998. It was expected that this business would be improved by adhering to ICL's global strategies). The position in the Travel and Transport businesses was noted where, on crew scheduling, matters were improving with British Airways but not yet with Singapore Airlines.
- f) The Board noted the "public presentation" of figures slide which showed a breakdown between continuing and

Mr Todd /
Mr Riesenfeld

Mr Todd/
Mr Riesenfeld

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Mr Todd

discontinued businesses in the manner in which it was expected analysts and markets would expect when ICL was preparing for listing. In discussion it was agreed to be vital that ICL reached a consistent and defensible position on the treatment of exceptional items – for example there might be some, such as a provision for the BBC contract, which would be in the course of business and should effectively be “above the line” versus others such as sales of businesses which would always be “exceptional” items. Vicomte Davignon believed that the Audit Committee should discuss this treatment and agree the way forward.

Mr Todd

- g) There was a discussion on the approach ICL would take to flotation and it was agreed at this point that the essence of ICL's position should be the strong revenue growth experienced and the prospect of more after listing. Mr Ollila commented this should be demonstrated in ICL without the benefit of exceptional items such as disposals. Mr Gillibrand said he remained concerned over the high dependence of ICL of HPS' profits and added that the other businesses did not seem to be performing well. Mr Todd said that he would arrange for the next Board meeting to have a presentation/explanation on where the improvements in the other businesses were coming from and how their potential for high revenue growth was emerging. Mr Gillibrand added that ICL needed simple and succinct explanations on such issues, which could be briskly and confidently presented to analysts.

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ICL's Listing

Mr Hartnell then joined the meeting and gave a presentation covering reasons to float, ideas on positioning ICL, questions to be answered in the process, companies with which ICL could be compared, where ICL should be listed (the recommendation was in London with a subsidiary listing in New York), whether there should be a fully marketed international offering (the recommendation at this stage) as opposed to a traditional UK offer and the advisors ICL would pick including a global co-ordinator who would be advisor and lead distributor. Mr Hartnell also referred to structure considerations for the offer, valuation matters and timing (a first estimate of this was June/July 2000 or November 2000). There was a discussion, points arising:

- a) Mr Todd referred to the choice of the financial advisor/global co-ordinator. He had been extremely unhappy that Schroders had let ICL down sharply because they perceived a conflict of interest with their Post Office role and could not help ICL on Pathway. Fortunately

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Hambros had stepped into the breach. The Board had no issue in moving from Schroders and Mr Todd would continue with the work to assess which advisors to appoint. However it was felt that ICL should be very sure on the kind of listing it would be seeking and what its strategy was, before the advisor was appointed. Vicomte Davignon commented there could be a conflict of interest if the advisor was involved in this decision ("why to float") and they should be confined to "how to float". It was however acknowledged that some expert advice would be needed before ICL could reach its initial position on why to float.

- b) ICL would be likely to depend on the story of revenue growth being experienced and to be experienced in the future and Mr Ollila said this strategy would be seen by the market as only a step towards stable earnings growth. Markets, particularly in the US could be unforgiving if we could not sustain the revenue and earnings growth anticipated. Sir Peter referred to the obligations of a US listing including quarterly reporting, time commitments and Mr Ollila added that the US shareholders were litigious and the market there tended to be obsessed with strategy for and performance in the US, to the exclusion of the rest of the business, even when the US was a small proportion of the company's activity. He added that the decision on questions of UK and/or US listing should determine the advisor(s) to be used.
- c) Vicomte Davignon commented that since 1990 when ICL was explained as an independent Fujitsu business in Europe, the landscape had changed. Now, ICL was global and fitted into Fujitsu's global business. At flotation there would be much detailed questioning on the strategy of Fujitsu and where ICL fitted in. It was important to get the Fujitsu family global integrated story straight at the beginning and ensure that all the main elements, Fujitsu, ICL and Amdahl and DMR would hold to the same explanations and emphasise the same matters.

Mr Todd

Mr Naruto thanked the Board for their advice and emphasised the need to decide fundamental issues initially. Mr Todd added his thanks and said that ICL would take the opportunity to talk to Directors individually. It was agreed that a substantial proportion of the next Board meeting on 13th May would be devoted to a detailed consideration of flotation particularly including strategic issues and treatment of the figures, businesses, etc.

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Company Secret**99/4****ICL Pathway**

Mr Todd, Sir Michael Butler, Mr R Christou and Mr J H Bennett reported on the "without prejudice" negotiations which have taken place with HM Government to resolve the project dispute. The contents of the "without prejudice" negotiations since the last meeting of the Board are briefly summarised in the attached report marked (A). This report is to be submitted to Masons as part of the continuing process of obtaining legal advice on issues pertinent to litigation, in the event that without prejudice negotiations fail.

99/5**Major Contracts**

Mr Todd referred to the contract wins of the DTI Elgar project and the Magistrate Courts PFI. Also the contract with the Ministry of Agriculture, Fisheries and Food. Two large bids were nearing fruition, for the Customs & Excise and the Home Office Departments of the UK Government. Vicomte Davignon added that substantial Government contracts were likely to be let by the French and German Governments in particular in the near future, to the private sector and ICL should prepare to take advantage of the possibilities.

Mr Todd

99/6**Approvals and Confirmations**

a) Audit Committee Minutes of 26th November 1998.
The Minutes were confirmed.

b) Documents Signed and Sealed

PLC/99/4a**PLC/99/4b**

The Board agreed:

The signing of the documents dated 9th November 1998 to 20th January 1999 inclusive set out in the Register of Documents signed Under Hand.

The sealing of the documents numbered 76422 to 76458, between 15th October 1998 to 20th January 1999 inclusive set out in the Register of Documents Sealed.

99/7**Changes to the Executive Management Committee**

Mr Todd said certain changes were being proposed and it was agreed that the Directors' Remuneration Committee would, on behalf of the Board consider and if thought fit, approve the changes.

99/8**Dates of Next Meetings**

26th April 1999 (for special Audit Committee)

13th May 1999

21st July 1999

25th November 1999

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

Report (A) – ICL Pathway for February 1999

Introduction

This is an updating 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 further legal advice from Masons' on various questions arising in relation to potential litigation in the event that without prejudice negotiations fail.

Without Prejudice Negotiations

- a) It is noted that the base contract of installing the Post Office infrastructure could lose £200m but under delivery of ICL's new proposals, to help implement "Government Direct" and "Citizen Centric Government" in partnership with the Post Office, the situation could be converted into a £200m profit over the life of a new contract. It is noted that Mr Kurokawa's team from Fujitsu had audited the project and reported to Tokyo. Cash requirements of the base contract alone were now estimated at approximately £600m over the life of the contract.
- b) Following submission of ICL's offer of 18th December 1998 it was understood that there were hopes of a way forward with customers. Unfortunately this was delayed or frustrated by the change in Secretary of State for Trade and Industry. It was understood that the attitude of the Department of Social Security (DSS) was still one of opposition to continuance of the project.
- c) More recently Mr Robson of HM Treasury had contacted ICL and said that Ministers had not reached a consensus. In particular the DSS did not wish to proceed on the basis of ICL's offer of 18th December. However he said his stance, in order to find a satisfactory way forward, was to try to preserve the Post Office network and also satisfy the desire of the Benefits Agency to go quickly to automated credit transfers, i.e. to reconcile these two objectives.

In response ICL had said that we were not proposing to put in new proposals and it was agreed that ICL would help with the Treasury's own proposal referred to above. Mr Robson informed ICL that he spoke with the authority of the Prime Minister to reach a solution satisfactory to and accepted by all parties.

- d) ICL had then worked on modifications to HM Treasury's idea, making comments on a draft brief for Ministers, on the understanding that if, in a week to ten days an understanding could be reached, the parties would sit down to try to turn this into commercial reality.
- e) The HM Treasury solution now - "Option B" or the new proposal - was to scrap the magnetic benefit payment card and roll out the Post Office "Horizon" infrastructure minus this card providing an automated platform for the POCL services. All the Post Offices with the Pathway installation on this basis represented the new "core system".

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- f) ICL had pointed out to HM Treasury that the parties had to work on the basis of the new core system to make the changed proposals commercially viable and secondly as the second stage to consider how they could help the Post Office with automated credit transfer work to enable the Post Office to retain Benefits Agency business to preserve its revenue.

So, for the second stage new proposals based on "Horizon" had to be brought forward. The second stage included that the Post Office would open bank accounts for claimants on the DSS book based system of the first stage and the Benefits Agency would make automated credit transfers into these accounts to pay benefits. For this the Post Office needed to have a link with a commercial bank for accounts, like, for example, the old Post Office Savings/Deposit accounts (there would be no current account facilities). Then, each account holder would be given a payment card (a "smartcard") enabling withdrawal of benefits from the account. The advantages of this included that it would help the Government's "Better Government" proposals.

- g) ICL had pointed out that the new second stage development based on Horizon as described would need a definitive specification before we could proceed and that ICL would have to re-examine and revise all its business plans from beginning to end as present plans would not be relevant.
- h) A new conciliatory attitude had been noted in Government and it was thought that the views of the British Ambassador in Japan may have been taken into account. HM Treasury had commented that ICL was seeing the worst of Government arising out of disagreement between two departments/agencies, the Post Office and the Benefits Agency. Mr Todd said he had commented to the Treasury that he personally had lost credibility with his Board and shareholder because of this dispute and Government delays. In asking ICL, Board and shareholder for more patience, Mr Robson had commented that we might see an example of something which had been impossible becoming possible.
- i) Sir Michael commented on the changing relations with Government and how he believed that Mr Robson and HM Treasury would be in a position to commit to a way forward. He felt our legal position had been strengthened as time had gone on. The new way forward, first and second stage, was in effect a better deal than the original Pathway plan, provided we could negotiate successfully on the details. However we could not proceed to negotiate details until we had a firm assurance on the financial side, then the details could follow. Mr Bennett added that this was another new initiative, he was hopeful but not too optimistic.

Following the reports the Board discussed the situation and commented as follows:

- j) It was noted that if a framework, not necessarily a renegotiated contract, with HM Government was agreed before the end of ICL's present period of account, Pathway would not be likely to have a significant effect on those accounts, as the business case was likely to be profitable over the life of a new contract. However if assurances, as mentioned by Sir Michael, could not be received by end March then the question of qualification or provision in ICL's accounts would

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have to be considered. It was noted that the auditors had been kept informed and would be further consulted. For example, they had to be sure that the wording in the Government assurance was acceptable to them to avoid provision or qualification.

- k) The Board was extremely upset and concerned with the continuing refusal of Government Ministers to enter serious discussions on the way forward, and considered that the credibility of the Chief Executive had not yet been restored. Another Board meeting may be scheduled to discuss progress.
- l) Amongst other comment, it was considered that the new potential way forward could work for the UK. Although it would involve opening bank accounts for individuals who had not wanted them previously, the proposed smartcard would be a simple method of using those accounts and would of course be secure and confidential to individual claimants.
- m) Mr Ollila commented that he was concerned that there was no pressure pushing the politicians to make a decision for example no clear cut penalties in the contract. However it was noted there were political pressures arising out of the need to protect the Post Offices and the need to modernise Government, for example by use of smartcards. The proposal to allow ACT to be used to pay DSS benefits should limit their objections. Also it was felt HM Government would not want an embarrassing public argument with ICL Pathway - this was another pressure towards a conclusion.

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