

RESTRICTED - POLICY

FROM : PETER SCHOFIELD
DATE : 13 May 1999
EXTN : GRO
ROOM: 25/G

STEVE ROBSON

cc APS/Chief Secretary
: Harry Bush
Adrian Montague
Adam Sharples
Mike Williams
Sarah Mullen
Alan Mawdsley
Robert Ricks

BA/POCL: MEETINGS WITH ICL

A brief record of our three meetings with ICL in the last 24 hours - yesterday morning and evening, and this evening. ICL were represented by Keith Todd, Richard Christou and (for the first meeting) George Hall.

2. By the time of the second meeting, ICL (Todd in particular) were clearly quite worked up. We therefore allowed them to do most of the talking.
3. The key points to record are as follows:
 - the President and Deputy Chairman of Fujitsu are coming to London tomorrow to discuss the project with ICL. The provision they will need to make for the sunk costs of the BPC will shift Fujitsu into the red for 1998;
 - ICL's view is that Fujitsu would not respond to this provision in a rational way. The response is likely to be to cut their losses and sue, rather than pursue what has the potential for being an attractive deal under B3. While we said we regarded the gap between the implications of termination and of pursuing B3 as huge, Todd said that without some assurance on the price we were prepared to pay, Fujitsu would see little attraction in B3;

RESTRICTED - POLICY

RESTRICTED - POLICY

- Fujitsu have asked to see the PM tomorrow whatever the situation - whether we are close to a deal or not;
- Todd and Christou said that the only way to avoid the provision in the accounts would be for the Government to sign a legally binding agreement - building on the draft letter we sent to Christou late on Tuesday, and including numbers. They presented their version of the draft at this evening's meeting. They said they would need this to be signed by tomorrow to avoid the provision in Fujitsu's accounts;
- a clear condition from ICL is that the public sector pick up the full sunk costs incurred by ICL - ie as if we were terminating for convenience;
- ICL met POCL this morning to talk through the numbers and the contracts. On the price, Christou said POCL would not consider making any contribution towards the abortive costs (sunk costs associated with the BPC), and would consider how much of the rest of the costs they might be prepared to pay. Another key issue for them, in terms of whether to agree to this contract, is the assurance they get from HMG about the timing of the move to ACT.

Next steps

4. There are three streams of work going forward:
 - on the numbers, KPMG are plugging ICL's proposal into their model so as to provide an updated NPV assessment of B3, together with cashflows;
 - we are pinning down the assessment of the alternative option - ie termination (Option C). Lawyers representing DSS and POCL are giving us their assessment of where a termination settlement might end up. And we are getting the external advisers (PONTIS and KPMG) to verify in writing the costs of an alternative off the shelf automation platform;

RESTRICTED - POLICY

- on the documentation, lawyers representing DSS and POCL are checking the draft letter and attachments handed to us this evening by ICL;

5. We (HMT, DTI, DSS, POCL and advisers) are meeting tomorrow morning to discuss progress on these streams of work.

PETER SCHOFIELD
PEP

RESTRICTED - POLICY