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ci:	PS/Ms Hewitt	
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	Bill Macintyre	CII
	David Sibbick	CGBPS
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3 November 1999

**SECRETARY OF STATE'S MEETING WITH NAOYUKI AKIKUSA PRESIDENT
OF FUJITSU ON 4 NOVEMBER AT 1500**

1. **Attendees**

For Fujitsu/ICL

For DTI

Mr Akikusa, President
George Hall, Director Corporate Affairs, ICL plc
Keith Todd, Chief Executive, ICL plc
(Interpreter)

Bill Macintyre, CII

2. **Contents of the brief**

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Points to make and defensive lines
Background on Fujitsu; ICL; Horizon; EMU; Envisioning Centre
Biographies on Mr Naoyuki Akikusa and Keith Todd

GRO

TRACEY CHURCHYARD

Objective

To continue to rebuild the relationship with Fujitsu and ICL subsequent to Horizon Pathway.

Steer

This is one of a series of regular meetings with this important inward investor aimed at ensuring ongoing dialogue and collaboration. Fujitsu are known to be concerned about the UK's stance on EMU and need to be reassured. They are also developing a significant e-commerce capability which is expected to benefit the UK. It is important that we establish what the impact of their plans will be. This meeting also provides an opportunity to determine Fujitsu's view of the implementation of Project Horizon.

Points to make

- **Acknowledge** that the Post Office has formally accepted ICL's Horizon automation system. Emphasise the importance to the commercial success of the Post Office attached to ICL and the Post Office achieving roll-out of the system by the target date of March 2001. **Ask** for Mr Akikusa's perspective on latest progress.
- **Thank** Fujitsu for their positive approach to the closure of Newton Aycliffe which has contributed to the successful transfer of the site to Filtronic plc.
- **Ask** Fujitsu about their plans for developing their e-commerce capability and the impact of this in the UK.
- **Explain** the UK Government's policy on monetary union and stress the great importance of economic stability to investment. (If pressed - **stress** that if the UK does not join, inward investors will still be able to conduct business in Euro's).
- *If raised* **explain** why you did not refer to the envisioning centre in your speech to the CBI and stress how much you value this initiative.

Background

(1) **Fujitsu Limited** is the number one computer company in Japan and has 34 manufacturing sites throughout the world. It's principal activities are the manufacture and sales of computers and information processing platforms, telecommunications systems, semiconductors and electronic devices, software and services. Turnover in 1998 saw Fujitsu's first full-year net loss since 1994, partially caused by big write-offs at the company's UK operations (namely the closure of Newton Aycliffe semiconductor plant and the provision against the failure of ICL's Horizon project) [1997: net profits were Y5.5bn]. Fujitsu's semiconductor manufacturing plant in Newton Aycliffe was closed in 1998 and has recently been sold to Filtronics plc. (Fujitsu played an important part in securing employment for the majority of employees).

The Fujitsu Group has over 180,000 employees in over 100 countries world-wide, including over 4,000 in the UK. In order to develop their e-commerce capabilities Fujitsu recently unveiled a series of e-commerce deals in banking, securities and online shopping and, (in June), announced plans to merge their European computer activities with Siemens providing the necessary economies of scale to become one of the world leaders in the sector and enabling Fujitsu to become one of Europe's top five computer producers.

Key areas of Fujitsu's UK business include Telecommunications Europe Ltd (FTEL) which has its headquarters at Birmingham. Fujitsu have also located core telecomms R&D capability in the UK since 1990 mainly working on transmission systems, wireless communication and network management systems. Many of the network operators of the UK are FTEL's customers although their main customer is BT with whom they have been collaborating on ADSL trials in West Croydon. As a result, Fujitsu has recently announced the award of a £multi-million contract by BT and will be playing a leading role in BT's £5bn programme to transform standard copper telephone lines to carry new high speed multi-media and internet services.

(2) **ICL plc** is Fujitsu's software and services arm and has been wholly owned by Fujitsu Limited since September 1998, although the two companies are run as separate entities to protect share values. It is intended that when ICL floats in 2000, Fujitsu will still retain a significant shareholding. ICL's core activities are systems integration, out-sourcing, technology and IT services and it has over 22,000 employees operating in over 40 countries; the majority are in Europe, with around 16,000 in the UK.

ICL reported a loss in their March 1999 accounts of £118m compared to £27m in 1997. This was largely caused by provision made for the Horizon project. The 1999 accounts cover a 15 month period therefore the figures are not directly comparable.

Keith Todd has announced two new businesses; (1) a global partnership with Fujitsu to exploit their groupware product, "TeamWARE" world-wide, and (2) an interactive services business to help customers exploit the world of the Internet and other on-line services. Major focuses for the future are electronic commerce and smart cards.

In May 1998 ICL announced a major global alliance with Microsoft to develop new "consumer-focused" IT systems. ICL are also a "Microsoft Solution Provider Authorised Support Centre" which allows the company to develop and market services built around Microsoft products. This alliance has had a major impact on the company's growth.

(3) Previous contacts with Government

You met Mr Akikusa, President of Fujitsu and Mr Naruto, Vice Chairman of Fujitsu and Chairman of ICL on 13 June in Japan. You also met Keith Todd, Chief Executive, ICL in April of this year.

Ms Hewitt was due to meet Keith Todd of ICL on 2 November, however due to diary commitments this has been rearranged to take place on 8 November.

Ms Hewitt has also agreed to contribute a short statement on video when Keith Todd announces the expansion of ICL's E-commerce activity on 17 November. ICL intends to recruit over 2,000 engineers of which at least 1,000 will be based in the UK.

(4) Horizon

You last met Mr Akikusa in Tokyo in June this year, not long after the Government's decision in May to drop the benefit payment card from the Horizon project. At this time, Mr Akikusa described the problems over the project and the result of the final deal which put them into the red, as unfortunate.

He explained that Fujitsu want to strengthen ICL in order to make it independent in due course and in the meantime are overseeing ICL's activities more closely. The revised Horizon contract was finalised at the end of July and the Post Office accepted the system on 24 September.

(5) EMU

Fujitsu went public about their concerns over the UK's delay in joining EMU in an FT article dated 4 October. The UK has the policy of preparing and deciding when it is in the UK's interest to join, but given that we remain in the single market and the centre of Europe there is no reason why this policy should affect investment in this country. Inward investors are able to conduct business in Euros should they wish to irrespective of whether the UK joins or not. The importance of investment, both domestic and overseas is recognised by the Government and the views of inward investors will be taken into account when deciding whether or not to recommend membership.

(6) **Envisioning Centre**

You were due to officially announce in your recent speech to the CBI collaboration with ICL on a joint venture on establishment of the envisioning centre (called futurefocus@dti) in 1 Victoria Street. The other private sector partners are SGI and Trimension. The building of the centre will commence shortly with the aim of opening in April 2000. The value of the private sector contribution will be about £1.5m over three years.

Despite the fact that the joint venture partners were proposing to issue press releases to coincide with your speech to the CBI, you did not make any reference to it.

Biographies

(7) **Naoyuki Akikusa**

Mr Naoyuki Akikusa joined Fujitsu Limited in April 1961 after graduating with a Bachelor of Arts in Political science and Economics from Waseda University.

He has held a variety of positions in Fujitsu Software and Software Business, Promotion Groups, Large Scale Projects Groups, and Systems Engineering.

He was promoted to Board Director in June 1988 and became Senior Vice President in June 1991. He held the position of Executive Vice President in June 1992 and attained Group President, Software and Service Business Promotion Group in 1996. He has held responsibility for the ICL Business Group since 1997 and became President of Fujitsu Limited in June last year.

(8) **Keith Todd**

Keith Todd joined the company in 1987 as Finance Director after a career in finance with GEC/Marconi. He was appointed Chief Executive of ICL in 1995. He is a fellow of the Chartered Institute of Management Accountants and of the Royal Society for the Encouragement of Arts (RSA).