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Sir Peter Carey KCB
Permanent Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

18 March 1981

Mr C Whitmore
10 Downing Street
London SW1

TL

Dear Sir,

ICL

During the day, Mr Scholey reported, following a meeting of the Board of ICL, that the directors were moving rapidly to a position in which they felt they would have to seek receivership. This was not for any single identifiable cause, but because of the growing speculation and uncertainty surrounding the company. Mr Scholey therefore advised that the position could not be held beyond the end of the week.

At the same time, we learned from Lord Benson that it was the intention of the banks to reject the proposal we had put to them yesterday.

Against this background, I had a further meeting with the banks this afternoon. After discussion, and after they had consulted their superiors in London and New York, they agreed to maintain their facilities at £70M for the period of up to 2 years which I had mentioned to them. Within this facility they would assume responsibility for such other banks as might wish to withdraw their present facilities. This was conditional on the Government's arranging for a guarantee of further facilities. While we began at a figure of £150M, it rapidly became clear that we would need a larger sum than this to secure the banks' £70M. In the event we moved to £200M because all concerned agreed that this provided a better chance that the guarantee would not be called than any lower figure.

We shall be meeting the banks later tonight to discuss the conditions which we shall wish to attach to the guarantee. We are also seeing the company in order to secure their agreement. Both the banks and the company are aware that we aim to make a statement to Parliament tomorrow afternoon in order to prevent further deterioration in the situation. Subject therefore to the satisfactory outcome of these further talks we should be in a position to proceed tomorrow. I shall notify you the moment this position is reached.

The guarantee document will contain a provision for the interest rate to be charged. This will be a point for negotiation with the banks.

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The point about suspension of the shares is being discussed with the company and their advisers. But we should remember that it is not in our power to seek such a suspension: that is a matter for the company and the Stock Exchange. Nor can a suspension continue for more than a very limited period of time. This point too will be clearer by the morning.

...
... We have been looking again at the draft statement and notes for supplementaries in the light of today's events. I attach a re-draft of the statement which includes a revised penultimate paragraph proposed by the Chief Secretary. I also enclose a revised and extended list of notes for supplementaries.

Copies as before.

Yours ever
Peter.

Peter Carey



DRAFT STATEMENT TO THE HOUSE OF COMMONS

BY SECRETARY OF STATE FOR INDUSTRY

With your permission, Mr Speaker, I wish to make a statement about International Computers Ltd.

The House will be aware that the Government is a user on a substantial scale of ICL computers with equipment to a value of more than £300 million supporting vital operations in some 20 Departments including defence, revenue assessment and collection, agriculture, health and social security. Because of this dependence upon ICL's products we have therefore shared the concern expressed by the Company's Chairman at the Annual General Meeting on 3 February about the deterioration in its trading position. In reporting the results for the year to 30 September 1980 he indicated that there had been a sharp drop in profit in the second half of that year, that the company was currently trading at a loss and that adverse trading conditions could continue well into the current year. However, given a revival in markets, ICL expected a significant improvement in the profitability of its operation.

The trading position of the Company is of course essentially for its management, its shareholders and its bankers and it is to the banks that ICL looks primarily to maintain its credit facilities on a worldwide basis. I am glad to be able to say in this context that banks are maintaining support for the Company.

I have already referred to the special interest of the Government in ICL as a major customer of their products. ICL machines are also used extensively elsewhere in the public sector, and by major corporations, both in this country and abroad. The Government recognise too that the information technology industries in this country are vitally important to our future prosperity. For these reasons we have responded positively to a proposal that, int

*Deleted at request
of the Industry*



the present circumstances of world recession, the Government should provide a limited, temporary measure of support for ICL. This support for ICL, in addition to R & D support which will be available in the normal way, should give the Company the chance to review its longer term business opportunities.

I therefore intend to seek from the House at the earliest opportunity its authority to provide a guarantee for facilities to be provided by banks for ICL under Section 8 of the Industry Act 1972. This guarantee will be limited to an amount of up to £200M for a period of up to 2 years: it will not lead to any increase in public expenditure unless it is called. Because the guarantee is for a limited amount and for a limited time, it is entirely consistent with the Government's policy for assistance contained in our manifesto that where it is in the national interest to help a firm in difficulties, such help must be temporary and tapered.



NOTES FOR SUPPLEMENTARIES

1 Change in Government Policy?

NO. The measure is temporary and the circumstances exceptional. I have referred already to the dependence of Government computing upon ICL equipment.

2 What about the Prime Minister's "Weekend World" Interview on 1 February

In that interview the Prime Minister did not rule out selective help under existing industrial legislation.

3 Why is a guarantee needed at all?

I referred in my statement to the impact on the company of the world-wide recession.

4 Why £200M? Will it be enough to see the company through?

The company and their banks judge this to be sufficient. The Conservative Manifesto of 1979 made it clear that where it is necessary to help a firm in difficulties such help must be temporary and tapered.

5 What happens at the end of two years?

The guarantee lapses.

6 Is there sufficient money available under Section 8 for this purpose?

Yes.

7 Does the guarantee have to be cleared with the European Community?

Yes. This is being sought.

8 Supposing the guarantee is called: addition to public expenditure?

Providing a guarantee does not itself involve any public expenditure



and has no effect on PSBR. But it is the nature of a guarantee that expenditure will be required if it is called.

9 Are the Government prepared to acquire a stake in ICL?

No. We are not taking up any equity.

10 Permanent pensioner/lame duck/Government rescue?

The Government is simply providing a guarantee limited as I have indicated.

11 Surely ICL have an appalling future?

No. ICL have an excellent product range with well-established markets at home and abroad. The £200M covered by the guarantee is judged by the Company and the banks to be sufficient.

12 A result of restrictive Government policies?

High technology industries like the computer industry are particularly exposed in a world recession. ICL have successfully kept their share of a rapidly falling world market.

13 Any further support contemplated?

No, other than the normal support available to qualifying companies such as research and development.

14 Government attitude to and knowledge of foreign take-over?
Protection of existing users?

This is primarily a matter for the company. If there were to be any approach, the Government's attitude would depend on its particular nature. Any partner would I am sure have as a major commercial objective the need to secure the loyalty of ICL's customer base.

15 What about redundancy?

This is a matter for the management.



16 What about the Company's management?

The Government and the banks will naturally keep a close watch on the company's performance throughout the duration of the guarantee.

NEB QUESTIONS

17 What profit did the Government make on the sale of the 25% NEB shareholding in ICL?

The NEB made a profit of £25 million on its £13 million investment.

18 Today's market price is /43p 7. What was it when the shares were sold?

480, although the shares were split into four in 1980 (£1 into 4 x 25p).

19 Hasn't the Government taken advantage of inside information in disposing of its shares before they plummeted?

There was no reason to question ICL's future performance at the time of the sale. The decision to sell the shares was taken simply as part of wider Government plans to dispose of NEB's assets.

/If pressed/

In the same month as the sale the company had reported a healthy annual profit of £46 million, an increase of 22%. There were similar increases in turnover and earnings per share.

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Sir Peter Carey KCB
Permanent Secretary

cc Mr Wolfson
Mr Hostgas
Mr Lancaster

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

19 March 1981

Mr C Whitmore
10 Downing Street
London SW1

Dear Sir,

ICL

Negotiations with the banks and the company continued until 2.30 am, by which time we had reached complete agreement on everything except the rate of interest. Here, the banks, because of the risk they were accepting on the £70M and the long time involved (2 years), sought a rate of $\frac{5}{8}\%$ over the banks' base rate or the London Inter-Bank Overnight Rate as the case may be. The company thought this excessive and burdensome and we were disposed to agree. Ultimately we negotiated a $\frac{1}{2}\%$, subject to confirmation this morning. This I have now received.

... I enclose copies of the documents finally agreed. For technical reasons, the guarantee and its accompanying conditions are now contained in three separate documents. We managed to obtain most of the conditions we wanted, with two exceptions:

- (i) We had to yield the point about security, which was in any event not meaningful.
- (ii) Because of the contractual arrangements the company has with its unions, the best we could secure on redundancy payments was that they would offer nothing above the contractual rate, including to new employees, whom they must be free to engage if they are to continue trading successfully.

We have inserted a condition which gives us a free hand to reconstruct the Board of the Company and to make such appointments as we want. It will be very necessary to do this without much delay, and we are thinking of suitable names. On Mr Scholey's strong advice this may have to include the Chairman and we would in no way dissent from this.

Application is being made by the Company to the Stock Exchange for suspension of the shares at 9.15 am, on the assumption that there will be a statement after Questions this afternoon. Resumption of trading in the shares is a matter for decision by the Company in the light of developments, particularly in the partnership negotiations. We shall be consulted.

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Since public statements will make no reference to partnership negotiations, there may be an assumption that our aim is to maintain the Company in its independent state. We shall therefore need to ensure that the companies at present in negotiation are told privately that this is not our objective and that we wish the negotiations to proceed as quickly as practicable.

Copies as before.

Yours ever,

Peter

Peter Carey



THIS GUARANTEE is made on the day of
1981 BETWEEN MIDLAND BANK PLC, BARCLAYS BANK PLC,
NATIONAL WESTMINSTER BANK PLC AND CITIBANK NA (the "banks")
and THE SECRETARY OF STATE FOR INDUSTRY ("the Guarantor").

In consideration of the banks making available to International Computers PLC ("the Company") by way of financial assistance bank facilities of up to £270 million to be available until 31st March 1983 and to be provided in accordance with the terms of a facility letter to be agreed between the banks and the Guarantor, the Secretary of State for Industry acting under Section 8 of the Industry Act 1972 as amended and pursuant to a resolution of the Commons House of Parliament passed on 1981 and with the consent of the Treasury and subject to the terms and conditions set out in the Schedule hereto, hereby GUARANTEES payment to the banks on demand made at any time but not after 31st March 1983 any amount of principal, interest and any accrued bank charges extended by them to the Company in pursuance of those facilities:

PROVIDED THAT -

- a) the total liability of the Guarantor under this Guarantee shall at no time exceed the sum of £200,000,000 (two hundred million pounds sterling) and
- b) this Guarantee only applies to the extent that the said facilities are drawn on in excess of the amount of £70,000,000 outstanding at any time including interest (as well after as before judgement) upon the sum demanded from the date of demand until actual payment.



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SCHEDULE OF TERMS AND CONDITIONS

- (1) It is hereby agreed that the terms of any facility letter agreed between the banks and the Company in consequence of this Guarantee shall be subject to the written approval of the Guarantor and shall not be altered without such approval.
- (2) The banks whether as debenture holders or otherwise agree not to appoint a receiver of the undertaking, property or assets of the Company or to put the Company in liquidation without giving [5] business days' prior notice to the Guarantor.
- (3) The Guarantor may upon giving 30 days prior written notice to the banks terminate the whole or any part of his liability under this Guarantee, provided that if at any time it appears to the Guarantor that any person or group of associated persons have acquired 30% or more of the voting shares of the Company the Guarantor may exercise his right under this Condition without giving the banks any prior notice except insofar as any liabilities of the Guarantor have arisen before the date of termination.
- (4) In the event of a receiver of the undertaking, property or assets of the Company being appointed the banks shall have the immediate right to call upon the Guarantor to make such payment under the Guarantee as will be sufficient to discharge the Guarantor's obligation thereunder in respect of the total amount of principal, accrued interest and accrued bank charges outstanding as at the date on which the call is made, subject to any necessary adjustments subsequently agreed between the Guarantor and the banks.



ICL PUBLIC LIMITED COMPANY

19 March 1981

Proposed heads of terms for facility letter to be issued by Midland Bank, Barclays Bank, Citibank and National Westminster Bank.

<u>Borrower/Obligor</u>	International Computers Limited												
<u>Amount</u>	£270M sterling and multi currency as available												
<u>Purpose</u>	General trading requirements												
<u>Facility Description</u>	Loans, overdrafts, guarantees and other engagements (guarantees and other engagements to be subject to a sub limit to be defined)												
<u>Lenders</u>	<table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Midland Bank</td><td>104.5M</td></tr><tr><td>Barclays Bank</td><td>79.6M</td></tr><tr><td>Citibank</td><td>61.0M</td></tr><tr><td>National Westminster</td><td>24.9M</td></tr><tr><td>Total</td><td><u>270.0M</u></td></tr></tbody></table>		£	Midland Bank	104.5M	Barclays Bank	79.6M	Citibank	61.0M	National Westminster	24.9M	Total	<u>270.0M</u>
	£												
Midland Bank	104.5M												
Barclays Bank	79.6M												
Citibank	61.0M												
National Westminster	24.9M												
Total	<u>270.0M</u>												
	These banks will enter into an agreement amongst themselves to apportion risks equitably												
<u>Period</u>	For repayment and extinguishing all liabilities by 31 March 1983												
<u>Remuneration</u>													
<u>Security</u> - as in existing agreements													
(a)	Floating charge by International Computers Limited - to apply to £70M only.												
(b)	Unsupported guarantees from the following: ICL Public Limited Company ICL Computers Limited International Computers (Overseas) Limited International Computers (Rentals) Limited International Computers (Investments) Limited												
(c)	Other security to be requested by the banks, possibility of guarantees from other subsidiary companies.												
(d)	Guarantee by UK Government for all indebtedness and obligations to the banks in excess of £70M up to a total of £270M.												



Events of default

The banks to be at liberty to demand immediate repayment and to withdraw the facility on the happening of any one or more of the following events:

- (a) Failure to pay or provide any monies whether principal or interest under this facility.
- (b) Default in repaying any other monies payable to the lenders.
- (c) Default in the performance of any term, provision or agreement in this facility letter.
- (d) Order or effective resolution for winding up otherwise than for the purpose of reconstruction or amalgamation while solvent and approved by the lenders.
- (e) Convening a meeting or entering into arrangements or composition for the benefit of creditors generally.
- (f) Distress or execution levied or sued out upon or against any property and remaining undischarged.
- (g) Any encumbrancer taking possession or a Receiver or similar officer being appointed.
- (h) The ceasing or the threatening to cease to carry on business.
- (i) Any other security becoming enforceable.
- (j) Inability to pay debts within meaning of Section 223 of Companies Act.
- (k) A body or connected bodies acquiring 30% or more of the shareholding control of ICL Public Limited Company or any material subsidiaries without prior written consent of the lenders.
- (l) Material sale of assets or business without written consent of the lenders.
- (m) The UK Government giving notice of the termination of its guarantee in accordance with that guarantee.
- (n) The gross assets of International Computers Limited falling below £270M at any time.



- (o) The consolidated net worth of ICL Public Limited Company (including any equity guaranteed by the UK Government) plus any liabilities by the lenders guaranteed by the UK Government or any other indebtedness outside this facility (but excluding the first charge debentures) falling below £100M.

NB. As appropriate, all the above events of default to apply to ICL Public Limited Company and any main subsidiary.

Conditions Precedent

In addition to customary clauses the four banks will wish to provide for all past agreements with the four banks to be supervised by this agreement and for all outstanding utilisations whether absolute or contingent to become subject to this new agreement. Also satisfaction required as to borrowing powers.

Other Conditions

Regular joint monitoring by banks and HMG.

Negative pledge.

The banks will wish to insert technical and other clauses - e.g. procedure for translating other currencies into sterling.



In consideration of the Guarantor agreeing to enter into the Guarantee, the Company undertakes for the period of the guarantee that:

- i) The Company will consult with the Guarantor about any increase in the Company's issued share capital necessary to ensure that the borrowing limit under the Company's Articles of Association is not exceeded. If it is agreed between the Company and the Guarantor that there should be such an increase, the Guarantor will, if so required, guarantee the redemption of up to £50M in nominal amount of Redeemable Preference Shares issued by the Company and in such event the amount of the Guarantee will be reduced pro tanto.

- ii) The Company will use its best endeavours to bring negotiations with a prospective partner to a successful conclusion as soon as possible, the arrangements to be acceptable to the Guarantor, and the Company will co-operate with the Guarantor at all stages of the negotiations, taking into account the Government's interest as a user of computers.

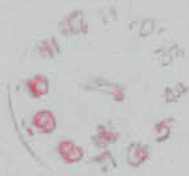
- iii) The Company will furnish to the Guarantor all such information as it may from time to time require relating to the activities of the Company.



- iv) The Company will consult fully and at regular intervals with the Guarantor on all matters affecting the composition of the Company's Board and Senior Management structure and the Guarantor will have the right to require the Board, subject to the provisions of the Articles of Association of the Company, to appoint such Directors as the Guarantor may nominate.

- v) The Company will not, without the written consent of the Guarantor, grant to any director or employee terms more favourable as regards compensation for redundancy or cessation of employment than the terms currently in force for directors or employees of comparable grade, seniority and terms of service or make any payment to any such directors or employees beyond their entitlement in the event of their redundancy or cessation of employment arising by virtue of any statutory provision or any agreement for that purpose made by the Company before the date of this agreement.

119 MAR 1971





DRAFT STATEMENT TO THE HOUSE OF COMMONS

BY SECRETARY OF STATE FOR INDUSTRY

With your permission, Mr Speaker, I wish to make a statement about International Computers Ltd.

The House will be aware that the Government is a user on a substantial scale of ICL computers with equipment to a value of more than £300 million supporting vital operations in some 20 Departments including defence, revenue assessment and collection, agriculture, health and social security. Because of this dependence upon ICL's products we have therefore shared the concern expressed by the Company's Chairman at the Annual General Meeting on 3 February about the deterioration in its trading position. In reporting the results for the year to 30 September 1980 he indicated that there had been a sharp drop in profit in the second half of that year, that the company was currently trading at a loss and that adverse trading conditions could continue well into the current year. However, given a revival in markets, the Chairman said ICL expected a significant improvement in the profitability of its operations.

The trading position of the Company is of course essentially for its management, its shareholders and its bankers and it is to the banks that ICL looks primarily to maintain its credit facilities on a worldwide basis. However, the Government has a special interest in ICL as a substantial customer for its products. To protect this special interest we have, therefore, given a positive response to a proposal that the Government should provide a limited, temporary measure of support for ICL. This support for ICL, in addition to a contribution towards R & D which could be available under existing criteria, should give the Company the chance to review its longer term business opportunities. I am glad to be able to say in this context that banks are continuing their support for the company [in an amount of £70m].

I therefore intend to seek from the House at the earliest opportunity its authority to provide a guarantee for further facilities to be

/provided ...

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provided by banks for ICL under Section 8 of the Industry Act 1972. Such a guarantee will not lead to any increase in public expenditure unless it is called; and I emphasise that it will be in a limited amount and for a limited time. The terms I will be proposing to the House will be for ^{a guarantee} an amount of up to £200m for a period of up to 2 years.

~~This is an exceptional measure reflecting both our interest as a user of ICL machines and the unprecedented effect of the world wide recession on the computer industry.~~



DEPARTMENT OF INDUSTRY
Permanent Secretary's
Office
Ashdown House
123 Victoria Street
London SW1E 6RB
Tel: 01 212 7003

Mr Whitmore

With the Compliments of
"Sir Peter Carey

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Sir Peter Carey KCB
Permanent Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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LONDON SW1E 6RB

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19 March 1981

Mr T F Mathews
Private Secretary to the
Chief Secretary
Treasury Chambers
Parliament Street
London SW1

Lee Terry,

ICL

Thank you for your letter of 19 March. The Chief Secretary's comments on the statement have been taken into account.

Copies as for your letter.

Tom ever,
J S Neve

J S NEVE
Private Secretary

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TH

Treasury Chambers, Parliament Street, SW1P 3AG

J S Neve Esq
Private Secretary to
Sir Peter Carey
Department of Industry
Ashdown House
London SW1

19 March 1981

Dear John,

ICL

The Chief Secretary has seen the draft statement attached to Sir Peter Carey's letter of 18 March to Clive Whitmore. He has two comments:

- i) The Chief Secretary does not favour the inclusion of the words "and tapered" at the end of the statement. The assistance does not taper. It is for a specific sum available in full, as a guarantee, throughout the term;
- ii) The Chief Secretary wishes the word "no" to be deleted from the beginning of the answer to supplementary question No. 11. He is quite sure that the government must avoid any implication that it is warranting the future successful performance of the company.

I am sending copies of this letter to Clive Whitmore (No. 10), Ian Ellison (Department of Industry), Jim Buckley (Lord President's Office), Jim Nursaw (Attorney-General's Office), Jonathan Hudson (Mr Baker's Office, Department of Industry), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

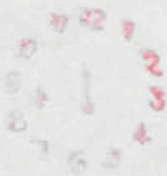
Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

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1981 MAR 9





Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

19 March 1981

R. Kitta

ICL

I have seen the latest draft of the statement you will be making to the House this afternoon. I would like to make a general point.

We are all agreed that it is essential that this decision should not result in our incurring any general obligation to support the company. What we have agreed to is an offer of support, by way of a guarantee, limited in amount and duration, which is intended to meet the condition in paragraph 7 of the Attorney General's minute of 15 March and so avoid any liability related to Section 332 of the Companies Act.

The Attorney emphasised in paragraph 7(ii) that, if these conditions are to hold, public statements made about the facility should not state or imply any intention to provide further assistance. This means, I believe, that it will be essential to eschew any general statement of confidence in the future of the company, which might be held to mislead shareholders and creditors. The latest draft of the statement seems to me satisfactory in avoiding any such statements, but I hope you will forgive me for emphasising this point again since it will be relevant also to any other comments which you or other colleagues may make, for example in answer to questions.

I am copying this letter to the Prime Minister, the Attorney General, the Lord President, the Secretaries of State for Trade and Employment, Mr Ibbs of the CPRS and Sir Robert Armstrong.

Y. W.
W.

LEON BRITTAN

19 MAR 1981

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