

ICL Pathway Limited

Directors' Report and Accounts

Year ended 31 December 1996

Registered No. 03011561



ICL Pathway Limited

Directors' Report for the year ended 31 December 1996

The directors present their report together with the audited financial statements of the company for the year ended 31 December 1996.

Principal Activities

The company's principal activity is the provision of computer systems and services. At present the company has contracts only with Post Office Counters Limited (POCL) and the Benefits Agency (BA) of the Department of Social Security. These contracts are for the provision of computer systems and services specifically related to the encashment of state benefits at post offices throughout the UK and the automation of other transactions handled by POCL.

Results and Dividends

The company spent substantial amounts on the development and testing of its system and in the acquisition of computer equipment to support these activities. As the company's revenue stream will be derived in the future entirely from transaction-based charges in accordance with the agreements with POCL and BA, all of the company's expenditure during 1996 has been capitalised. Amortisation of this expenditure will commence in line with the main rollout of equipment and the generation of meaningful revenue levels.

No dividend is proposed. (1995: Nil).

Review of the Business

The company was established in 1995 to seek contracts under the Private Finance Initiative.

Following an invitation to tender for the contracts with POCL and BA, tenders were submitted in March 1996. On 15 May 1996, The Secretary of State for Social Security announced award of the contracts to the company.

On 29 March 1996, De La Rue plc agreed to sell its 15 shares in the company to ICL and on 2 April 1996, Girobank Plc agreed to sell its 36 shares in the company to ICL. These transfers took place on 17 July 1996, giving ICL 100% ownership.

The company changed its name from Pathway Group Limited to ICL Pathway Limited on 30 July 1996.

On 24 September 1996 the authorised share capital of the company was increased from £100 to £20,000,100 by the creation of 20,000,000 new shares of £1 each. The new shares were issued for cash at par on 24 September 1996. The funds raised from this share issue have been applied to the costs of development and testing of the company's system and the acquisition of related fixed assets.

Future Developments

Following further testing and field trial phases, it is anticipated that the rollout of the system to post offices will take place in 1998 and 1999.

ICL Pathway Limited - Directors' Report for the year ended 31 December 1996 (continued)

Directors and Directors' Interests

The directors of the company who served during the year were as follows:

Sir Michael Butler	Chairman
TK Todd	Deputy Chairman
JH Bennett	Managing Director
AE Oppenheim	Commercial and Finance Director
J White	Non-executive
RL Banks	Non-executive
TJ Reynolds	Non-executive
M Murphy	Non-executive (appointed 20 March 1996, resigned 20 June 1996)
R Christou	Non-executive (appointed 30 July 1996)

Directors' interests are set out in note 12 on page 10

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Political and Charitable Donations

The company made no charitable or political donations during the year. (1995: nil)

Auditors

Price Waterhouse have indicated their willingness to continue as auditors of the company, and a resolution proposing their re-appointment will be put to the annual general meeting.

By order of the Board



R F Scott
Secretary

Date 18 September 1997

Registered office:
1 High Street
Putney
London SW15 1SW

Price Waterhouse



AUDITORS' REPORT TO THE SHAREHOLDERS OF ICL PATHWAY LIMITED

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1996 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

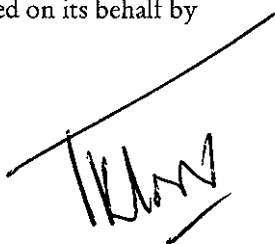
18 September 1997

ICL Pathway LimitedBalance Sheet as at 31 December 1996

	Notes	1996 £000	1995 £000
Fixed Assets			
Intangible assets	5	27,443	-
Tangible assets	6	5,940	-
Investments	7	-	-
		<u>33,383</u>	<u>-</u>
Current Assets			
Debtors	8	1,396	-
		<u>1,396</u>	<u>-</u>
Creditors - falling due within one year	9	(14,779)	-
Net Current Assets		<u>(13,383)</u>	<u>-</u>
Total Assets less Current Liabilities		<u>20,000</u>	<u>-</u>
Capital and Reserves			
Called up share capital	10	20,000	-
Total Equity Shareholders' Funds		<u>20,000</u>	<u>-</u>

Approved by the Board of Directors on 18 September 1997
and signed on its behalf by

Director



The notes on pages 6 to 10 form part of these accounts

ICL Pathway Limited**Reconciliation of movements in Equity Shareholders' Funds**

	1996 £000	1995 £000
Result for the year attributable to shareholders	-	-
New shares issued at par	20,000	-
Net addition to shareholders' funds	20,000	-
Opening Shareholders' Funds	-	-
Closing Shareholders' Funds	20,000	-

ICL Pathway Limited

Notes to the Accounts for the year ended 31 December 1996

1. Accounting Policies

Basis of Preparation

The financial statements of the company have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards, except that the company has taken advantage of the exemption in Financial Reporting Standard No. 1 ("FRS 1") from producing a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of ICL plc, which publishes a group cash flow statement equivalent to that required by FRS 1.

The accounts have been prepared on a going concern basis on the assumption that the project which is being undertaken for BA and POCL will in the long term provide a return on the company's investment. As with any long term project, there is a degree of uncertainty as to the future outcome, however the directors believe that the project will provide the company with a commercial return.

The company's parent company has agreed to provide support for the foreseeable future to allow the company to meet its liabilities as they fall due.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life as follows:

Fixtures and Fittings	- over 6.67 years
Plant and Machinery	- over 3 to 4.17 years

Development Costs

During the development stage all operating costs, including interest, depreciation and staff costs are treated as development costs and are capitalised accordingly as an intangible asset. The development stage will last until the company begins its main roll-out of equipment and systems and begins to generate transaction based revenues. At this point the roll-out stage will commence.

During the roll-out stage operating costs will be proportionally capitalised and charged to the profit and loss account. Any costs incurred solely for the development of the system will be capitalised, as during the development stage. Previously capitalised costs will be amortised on a phased basis in order to match the costs incurred against the revenues generated. This will continue until the equipment and systems have been fully rolled out and the company has reached steady state.

During steady state the capitalised development costs will be amortised on a formula basis in order to match the costs with the expected pattern of revenues.

Software costs - intangible fixed assets

Software purchased and developed externally for the purposes of the system being developed has been capitalised and included in intangible fixed assets.

In order to match costs and revenue relating to the project, they are to be depreciated on the same basis as development costs.

ICL Pathway Limited

Notes to the Accounts for the year ended 31 December 1996 (continued)

Shares in subsidiary company

The company's investment in a wholly owned subsidiary company is valued in the company's financial statements at cost less any amount written off for permanent diminution in value. The company has not prepared group accounts as it is a wholly owned subsidiary of a UK parent company.

2. Employees

	1996 £000	1995 £000
Employee Costs:		
Wages and salaries	1,802	-
Social security costs	158	-
Pension costs	173	-
	<u>2,133</u>	<u>-</u>

The average number of employees during the year, all classified as engaged in development activities was 36.

All staff costs including directors' remuneration have been capitalised in accordance with the company's accounting policy.

3. Directors' Remuneration

The directors' remuneration represents the total emoluments, including pension contributions, receivable by directors for their services to the company. In 1995, directors' fees and other emoluments were paid were paid by the company's immediate parent company.

The emoluments of the chairman and highest paid director were as follows:

	1996 £	1995 £
Chairman	40,000	23,333
Highest paid director	172,895	-

The emoluments of the directors (excluding pension contributions) fell into the following ranges:

	1996 No.	1995 No.
£nil - £5,000	5	9
£5,001 - £10,000	1	-
£10,001 - £25,000	-	1
£25,001 - £40,000	1	-
£40,001 - £125,000	1	-
£125,001 - £175,000	1	-

ICL Pathway Limited

Notes to the Accounts for the year ended 31 December 1996 (continued)

4. Auditors' Remuneration

	1996 £000	1995 £000
Auditors' remuneration - audit activities	35	-

The auditors' remuneration for the year has been capitalised in accordance with the company's accounting policy.

5. Intangible Fixed Assets

	Software Expenditure £000	Development Expenditure £000	Total £000
Cost:			
At January 1st 1996	-	-	-
Additions	2,613	24,838	27,451
At December 31st 1996	2,613	24,838	27,451
Amortisation:			
At January 1st 1996	-	-	-
Provided during the year	8	-	8
At December 31st 1996	8	-	8
Net Book Value at December 31st 1996	2,605	24,838	27,443

6. Tangible Fixed Assets

	Fixtures and Fittings £000	Plant and Machinery £000	Total £000
Cost:			
At January 1st 1996	-	-	-
Additions	5	6,516	6,521
At December 31st 1996	5	6,516	6,521
Depreciation			
At January 1st 1996	-	-	-
Provided during the year	-	581	581
At December 31st 1996	-	581	581
Net Book Value at December 31st 1996	5	5,935	5,940

The depreciation provided during the year for both software expenditure and tangible fixed assets has been capitalised in accordance with the company's accounting policy.

ICL Pathway Limited**Notes to the Accounts for the year ended 31 December 1996 (continued)****7. Investments**

The investment of £1 relates to the company's 100% holding of the ordinary share capital of Pathway 2000 Limited, a company registered in England and Wales for which the company has sole voting rights.

Subsequent to the balance sheet date this company has changed its name to ICL Pathway Asset Company Limited and has raised finance in the form of bank loans to fund the acquisition of assets for use in the computer system being constructed. These assets will then be leased to ICL Pathway Limited.

8. Debtors

	1996 £000	1995 £000
Other debtors	508	-
Prepayments and accrued income	879	-
Amount due from related party	9	-
	<u>1,396</u>	<u>-</u>

9. Creditors falling due within one year

	1996 £000	1995 £000
Bank overdraft	2,300	-
Trade creditors	4,059	-
Amounts due to other Group companies	3,329	-
Accruals	5,091	-
	<u>14,779</u>	<u>-</u>

10. Share Capital

	1996		1995	
Authorised, allotted, called up and fully paid:	No.	£000	No.	£000
Shares of £1 each	<u>20,000,100</u>	<u>20,000</u>	<u>100</u>	<u>-</u>

During the year the authorised share capital was increased by £20,000,000 by the creation of 20,000,000 ordinary shares of £1 each. Shares were allotted on 24 September 1996 and were fully paid in cash at par.

11. Capital Commitments

Amounts contracted for but not provided in the accounts amounted to £98,567,000 (1995: £nil).

Included in the above amount are commitments totalling £96,118,000 which have been assigned to ICL Pathway Asset Company Limited subsequent to the balance sheet date.

ICL Pathway Limited**Notes to the Accounts for the year ended 31 December 1996 (continued)****12. Directors' Interests**

None of the directors had any interest in the capital at any time during the year.

Set out below against their names are the interests of present directors of the company, shown in the Register of Directors' Interests required to be kept under the Companies Act 1985. The interests of R Christou who is a director of the Company's immediate parent company, International Computers Limited (ICL), are shown in the notes to the accounts of that company. The interests of TK Todd, who is also a director of ICL and of ICL's immediate parent company, ICL PLC, are shown in the notes to the accounts of ICL PLC. None of the other directors has any interests entered in the register as at 31 December 1996.

There are no contracts in relation to the Company's business in which any of the directors has a material interest.

**ICL PLC: Numbers of Ordinary Shares of 25p
each over which options have been granted**

	At 1 January 1996	lapsed during 1996	At 31 December 1996
JH Bennett	102,670	81,230	21,440
AE Oppenheim	2,670	1,230	1,440

13. Parent Undertaking and Ultimate Parent Undertaking

The company's controlling entity and intermediate holding company is ICL PLC, a company registered in England. This is the smallest group of which the company is a member and for which consolidated financial statements are drawn up. Copies of its financial statements can be obtained from:

ICL House
1 Putney High Street
London SW15 1SW

The ultimate controlling party is Fujitsu Limited, a company incorporated in Japan. A copy of the financial statements can be obtained from:

6-1 Marunouchi 1-chome
Chiyoda-ku
Tokyo 100
Japan

This is the largest group of which the company is a member and for which consolidated financial statements are drawn up.