



Keith Todd Esq
ICL plc
26 Finsbury Sq
London
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Post Office Counters Ltd

24 May 1999

Dear Mr Todd

POCL AUTOMATION PROJECT

POCL, ICL Pathway, ICL and DSS have been negotiating, with the assistance of HM Treasury, the withdrawal of DSS from further involvement in the Project and certain material amendments to the existing contracts between the parties.

Most recently, negotiations have proceeded on the basis that the Project will be amended to introduce a new service, the Benefits Payment Service or BPS, and the draft Heads of Agreement dated May 1999 between POCL, ICL Pathway and ICL (document reference 207738/10582 CA991020.027 JRT 060599.2352) (the "Heads") reflect that position.

Ministers have decided that the Project will be scaled down and completed on the basis that the claims of each party against the others will be settled on the following terms:

1. The Heads as amended by Schedule 1 to this letter take effect from the date hereof.
2. ICL Pathway will complete its obligations under the Related Agreements, as the same are amended by the Heads, and as the Related Agreements and the Heads are further amended by this letter.
3. POCL will pay ICL Pathway the sums set out in Schedule 2 to this letter in the manner and at the times set out in Schedule 2.
4. ICL Pathway will provide services under the Related Agreements (as amended) until 31st March 2005 (notwithstanding any later date that may appear in the Related Agreements or the Heads). On cessation of

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the services, POCL will have the option, subject to due payment of all sums payable up to that date, to purchase from ICL Pathway for the sum of £1 the Project Assets (using the definition of that term in the Heads which is expressed to be "ICL's view"), such Project Assets to be sold "as is", free of encumbrances including perpetual royalty free licences of all IPRs in accordance with the Related Agreements but with all express or implied warranties and conditions excluded to the full extent permitted by law.

5. In parallel with performance of ICL Pathway's obligations under 2 above, and following our discussions with you, we wish to confirm our desire to use the Core System for network banking and the provision of services (via smart cards) for Modern Government. We will therefore work with you to revive and continue the discussions on the Public Private Partnership which we have previously considered. It is hoped that we can together develop a business strategy in these areas which we can deliver through appropriate arrangements under a Public Private Partnership in order to leverage the use of the Core System and develop to the full its potential for the delivery of electronic business services.
6. ICL Pathway shall provide such services as may be agreed by ICL Pathway and POCL for Royal Mail, DVLA, NAS, Girobank and the Co-Op (and other POCL clients as may be agreed) at marginal running costs.
7. This letter agreement will come into effect on signature and will remain binding on all parties unless and until replaced by a comprehensive codification of the relevant terms of the Related Agreements, the Heads and this letter (a "Codified Agreement") which is agreed between all the parties thereto. The parties will use reasonable endeavours to produce and agree such a codification by 16 July 1999. This provision shall be without prejudice to any change to this letter, the Heads or the Related Agreements which is agreed between the relevant parties in accordance with the terms of the document in question.
8. In the event of any disagreement concerning the terms to be included in the Codified Agreement, POCL and ICL Pathway will negotiate in good faith to reach a resolution of the matter in question. If the Managing Director of POCL (or any equivalent executive) and the Commercial Director of ICL are unable to reach resolution of the matter at their initial meeting to discuss the same they shall invite an expert to give guidance and act as a facilitator. Where the matter in question is of a programme or technical nature, the expert shall be Peter Copping of PA Consulting Group (or, if he is not available, a person chosen in accordance with paras. 6.2 and 6.3 of Schedule 6 to the Heads). Where the matter is of any other nature the expert shall be an independent City solicitor to be agreed between ICL Pathway and POCL within 7 days of the date of this letter or, in default of agreement, to be appointed at the request of either of them by the President for the time being of the Law Society. ICL Pathway and

POCL do not expect that the identification and notification of the disagreement, reference of the disagreement to the expert and obtaining his guidance should take longer than 7 days.

If the parties have used all reasonable endeavours to agree the terms of the Codified Agreement, including pursuing the dispute resolution procedure above, but by 16 July 1999 material issues still remain unresolved, POCL shall have the right (to be exercised by a written notice served on ICL Pathway by 30 July 1999) to terminate the agreement contained in this letter including, for the avoidance of doubt, the Heads and the Related Agreements as amended. Where POCL does not exercise this right of termination this letter shall continue in force. However, this shall not prevent POCL and ICL Pathway from agreeing to replace this letter in its entirety with an incomplete Codified Agreement which incorporates those matters which have been agreed and, as regards matters which have not been agreed, carries forward the relevant parts of the agreement contained in this letter. In the event that POCL does exercise its right of termination pursuant to this paragraph, it will make a payment of £150 million to ICL Pathway less the sum of £68 million referred to in Schedule 2, paragraph 1 if, at the date of such termination, the sum of £68 million has already been paid to ICL Pathway.

9. The terms of this letter shall be in full and final settlement of all claims and counterclaims which any of POCL, ICL and ICL Pathway (the "Parties") may have against any other of them under or in connection with the Related Agreements arising from or in connection with acts or events which occurred or should have occurred, or statements that were made on or prior to the date of this letter (whether or not such have been made the subject of a claim or counterclaim at the date hereof). Each of the parties hereby waives any rights whatsoever which it might have against any other Party arising from or in connection with such acts, events or statements.

Words defined directly or by reference in the Heads bear the same meaning in this letter, unless the context otherwise requires. In the event of any conflict between the terms of this letter (including its schedules), the Heads, and any of the Related Agreements, the order of precedence shall be as follows (and so that the document listed earlier prevails over the document listed later);

This letter (including its schedules)
The Heads
The Related Agreements

Any amendment to this letter shall, to be valid, be made in writing under the hands of the signatories hereto or persons holding equivalent positions in the department, agency or company in question.

In the event of any disagreement concerning the terms of, or arising under this letter, the Heads or the Related Agreements, the Parties or such of them as are in disagreement, shall negotiate in good faith to reach an amicable resolution of the matter in question, but in default of resolution within a reasonable

period any relevant Party (that is a Party having a direct interest in the matter in question) may apply to the Courts of England & Wales for the matter to be resolved in accordance with English law. This provision shall be without prejudice to the specific provision for the resolution of disputes relating to Acceptance which is contained in the Heads and the provision in paragraph 8 as to the resolution of disagreements concerning terms to be included in the Codified Agreement.

For the sake of completeness please confirm your agreement to the above matters by signing the attached photocopy.

Yours sincerely

On original:

Signed for and on behalf of the
Post Office Counters Ltd

By:

GRO

Name:

GRO

Title:

Managing Director

On photocopy:

~~We hereby agree the terms of the above letter~~

GRO

~~For and on behalf of ICE plc~~

GRO

~~For and on behalf of ICE Pathway Limited~~