

PLC/98/5

ICL PLC

Board Paper

**REPORT AND ACCOUNTS 1997 AND
ANNUAL GENERAL MEETING 1998**

1. The draft Statutory ICL Annual Report and Accounts for the year ended 31st December 1997 is attached. This includes the full accounts and will be filed with the UK Government in due course. The Review of Operations section in particular, which is mostly in the form of case studies, is still under review and may be changed.

Also attached is a separate ICL PLC company Profit and Loss Account with an explanatory note, and the draft notice of the 1998 Annual General Meeting. Further attached is the proposed letter of Representation to and Letter of Engagement from, the Auditors. (The letter of engagement refers only to Year 2000 issues.)

As will be explained at the Board meeting, it is proposed that a Committee consisting of T K Todd, S Riesenfeld and H Watanabe (with a quorum of any two of them always including H Watanabe) be delegated the powers to finalise and approve the Accounts.

2. We will also be issuing a non-statutory Corporate Review with abridged financial information. This is a marketing/public relations document with wider circulation than the Statutory Report and Accounts. The narrative section is the same as pages of the Statutory Annual Report.

A copy of the final printed documents will be circulated to the Board as soon as possible.

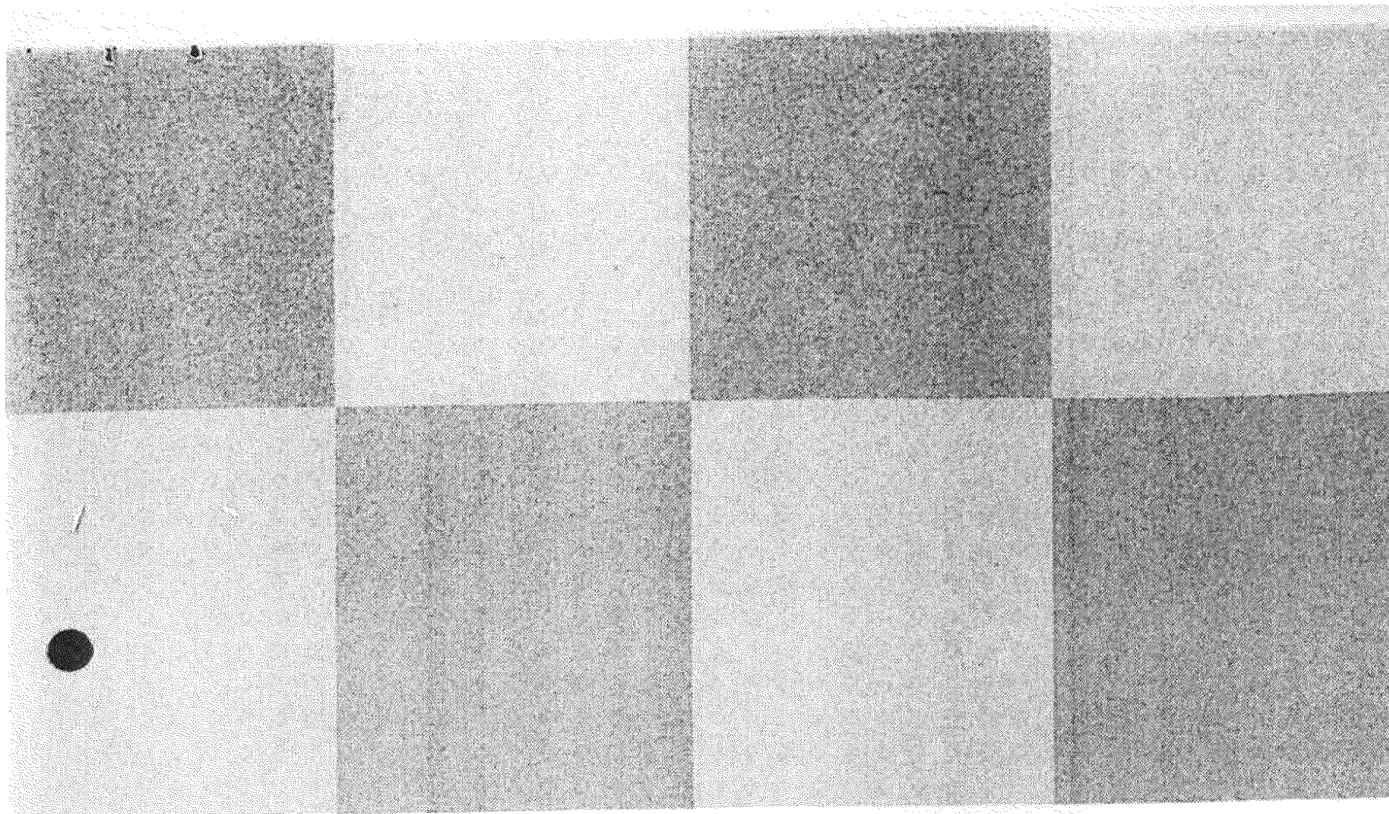
The Board is therefore asked to RESOLVE

THAT, pursuant to the Company's Articles of Association, a Committee of the Board consisting of T K Todd, S Riesenfeld and H Watanabe (with a quorum of any two of them always including Mr Watanabe) be appointed with full powers:

- 1) to amend where appropriate and then approve and authorise signature of the Company's Report and Accounts for the year ended 31st December 1997;
- 2) to authorise signature on behalf of the Board of a letter of representation to the auditor, Messrs Coopers & Lybrand, in respect of the accounts for the year ended 31st December 1997, and of a letter of engagement from Messrs Coopers & Lybrand in respect of audit matters generally;

- 2 -

- 3) to convene the Company's Annual General Meeting for 1998;
- 4) to take any necessary action and grant any necessary authorities to finalise the Company's Report and Accounts for 1997 and ensure their approval on behalf of the Board and their adoption by the Company's Shareholders.



300,000

ICL employs 3,000 professionals who deliver services to over 300,000 users in more than 300 locations.

1,000,000

1,000,000 SmartCity multi-application smart cards are being issued to employees of LukOIL, Russia's leading oil company.

£7bn

ICL's network mediation system processes £7bn of BT's revenue each year. Our systems also manage the billing of 20m calls every day.

64m

64m people a year pass through Heathrow Airport and use the information provided by ICL solutions.

“Shaping the Society”

contents

2	Financial Highlights
3	Chairman's Statement
4	Chief Executive's Review
6	Review of Operations
16	Financial Review
18	Management
22	Report of the Directors
25	Report of the Auditors
26	Financial Statements

Financial Highlights

What you are reading now is not the finished copy. And apart from one important fact, it bears absolutely no resemblance to the finished copy. The important fact is this. The copy you are now reading is set out to show you the typeface and the typesize in which the real copy will appear. The real copy has been typed separately.

Turnover £m

Information for graph to be supplied

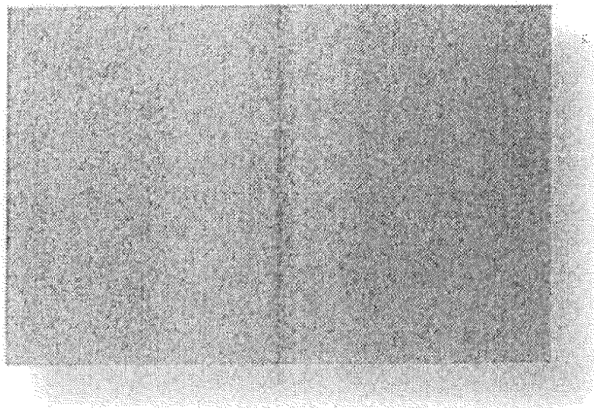
Profit before Tax (Services Contribution)

Information for graph to be supplied

Financial Achievements in 1997

- ◇ **Heading to be supplied**
The copy for this has yet to be supplied
- ◇ **Heading to be supplied**
The copy for this has yet to be supplied
- ◇ **Heading to be supplied**
The copy for this has yet to be supplied
- ◇ **Heading to be supplied**
The copy for this has yet to be supplied
- ◇ **Heading to be supplied**
The copy for this has yet to be supplied

Chief Executive's Review



The environment in which we have chosen to do business is characterised by the radical and the unconventional. To prosper in our world we must be flexible, fleet-footed and not afraid to challenge convention. This demands an organisation which fosters innovative thinking, whilst preserving vital financial and operating disciplines. We must have our 'eyes on the future' whilst keeping our feet on the ground.

1997 saw ICL move back into profit for the first time in three years, delivering earnings before tax and exceptional items of £42.7 million – a very pleasing £45.2 million turnaround from the losses of the prior year.

Over the last two years, ICL has largely completed the transition to a group focused on systems and services, which is nimble and adaptable enough to flourish in this demanding environment. After a period of painful restructuring, we are now channelling our energies into looking outward – aggressively growing our market share and capitalising on the opportunities that we are helping to create.

1997 saw ICL move back into profit for the first time in three years, delivering earnings before tax and exceptional items of £42.7 million – a very pleasing £45.2 million turnaround from the losses of the prior year. The strength of this recovery is all the more encouraging because it was struck after substantial investment in projects that will not generate profit for some time. These include recently won contracts such as the Automation of the UK Post Office Network (ICL Pathway) and the Online Service for the BBC (BEEB) together with bids for future UK Government PFI (Private Finance Initiative) contracts where we are competing for billions of pounds of business. We are clear that we need to build sustainable profit

streams for the future. This advance investment will help to increase ICL's future value.

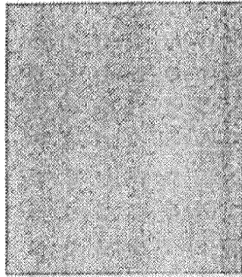
I have said before that my principal short-term priority is to lift the group's margins to the point where we are earning a realistic return on our substantial revenues. In 1997 we took a further step in the right direction, moving our operating margin closer to 2 per cent from 1.2 per cent last year. There is still a long way to go. We should be delivering at the very least a 5 per cent return on sales and all our managers have this immediate objective firmly in their sights over the next two years.

I am particularly pleased that revenues in our core outsourcing services businesses grew over 25 per cent in 1997, more than offsetting the anticipated decline in some of our older businesses. There were many notable wins, spearheaded by a groundbreaking new network-outsourcing contract from BG plc (Transco).

Our traditional businesses chalked up some marked successes during the year, spearheaded by the launch of the new Trimetra range of Servers. This revolutionary new

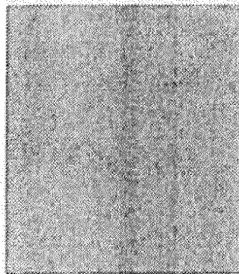
Shaping the Information Society

“The Information Society is neither [a sci-fi fantasy] nor an impossible ideal. It is a practical reality that is already influencing the way in which we live our lives. From leisure and work to shopping, learning and banking, ICL is playing a key role in shaping the future of this exciting new world.”



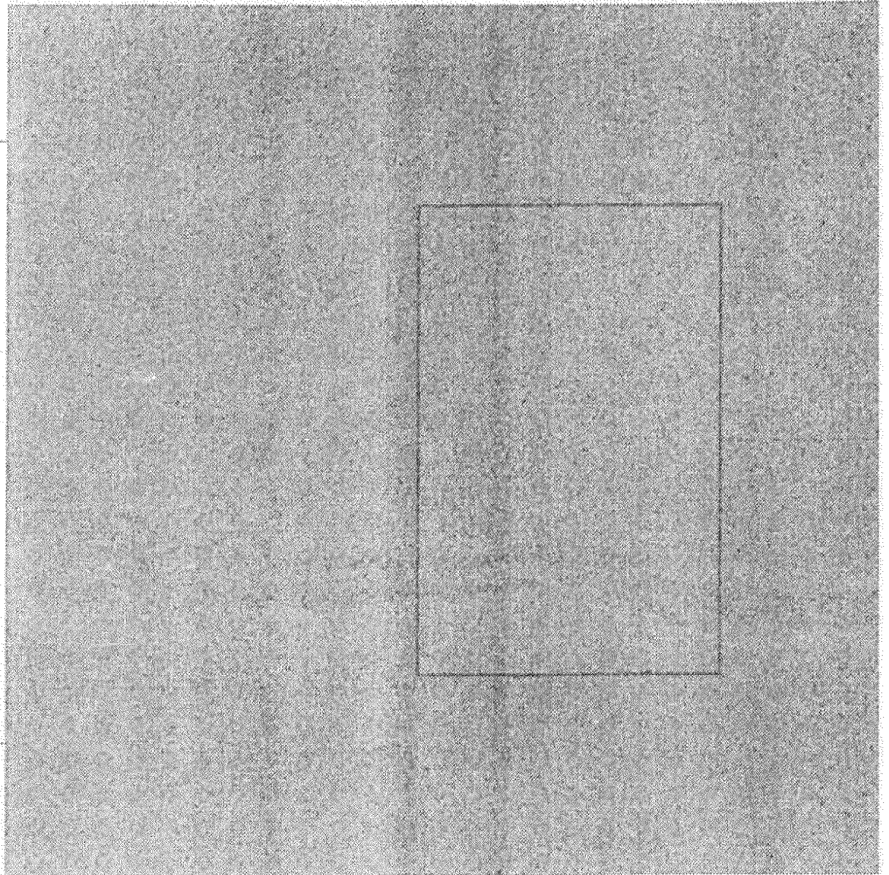
Leisure

- ◆ With its Job Hunter and Property Hunter the next web sites to go live, ADHunter confidently expects that it will soon be carrying more than one million advertisements on its sites, generating a profitable new revenue stream.
- ◆ Developed and supported by ICL, the Kouvola Regional Network in Finland serves as an electronic meeting place for the local community, with links to regional shops and other services. A business site makes it easier for local companies to conduct electronic business.



Learning

- ◆ ICL is proud to be a founder of UK NetYear which aims to improve the use of information and communications technology (ICT) in schools. This initiative provides a framework for business, the community and public sector to work in partnership to enhance standards of teaching and learning.
- ◆ ICL Hungary is a major partner in the Ministry of Culture's Internet for Schools' initiative. The project involves supplying PCs and servers in order to establish Internet laboratories in around 200 primary and 900 secondary schools across the country.



Eyes on the Future

Feet on the Ground

Review of Operations



'ICL worked with us in partnership, sharing our vision of approaching the solution from the customer, not the technology, end.'

Peter Simpson, Commercial Director, First Direct.

ICL and First Direct
are changing the
way we bank



Putting banking
@ the customers fingertips

Review of Operations

Case Study #2: UAE Ministry of Health

Technology has the potential to revolutionise the way in which ordinary citizens access Government services. In the United Arab Emirates, we have helped pioneer a health card registration and issuing system which will give medical teams instant access to a patient's health records from any location in the country.

The ability to maintain accurate, easily-accessible medical records is a challenge facing Government health departments in all regions of the world.

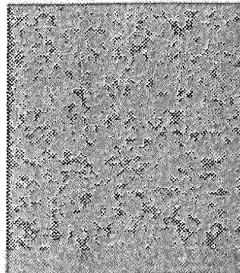
In a country such as the United Arab Emirates (UAE), where 32,000 square miles are home to just 2.4 million people, the challenge is great.

In the first phase of a project undertaken by ICL in partnership with Future Trends Establishment (FTE), 380,000 health cards will be issued from nine centres around the UAE. Equipped with a Fujitsu teamserver, PCs, scanning stations, card printers and report printers, each centre is networked to a central server over high speed communications links. We were responsible for the entire installation process, including all networking and applications software.

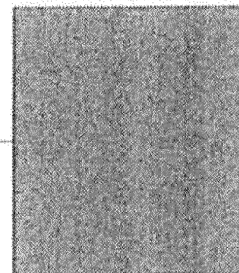
To reduce the risk of forgery, each card is personalised with a scanned image of the bearer with their name and nationality printed directly on the card. A magnetic strip and bar code can hold additional data including blood group and potentially life-saving information on conditions such as diabetes or allergies. The system, which will assign a unique national number to each cardholder, will be used as the master key in all future health applications.

For the Ministry of Health, the new system will generate accurate information which will allow officials to plan future health facilities which meet the needs of each region.

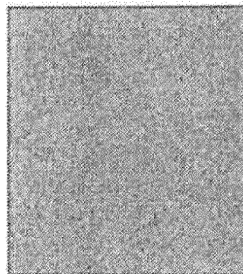
For UAE citizens, it will mean that up-to-date health card records are readily available via the network when they move from one health district to another.



The Ministry of Health intends to connect the health card system to their corporate systems



Emergency medical teams will be able to access an individual's details anywhere in the country



The new ICL system produces 3,000 cards a day.

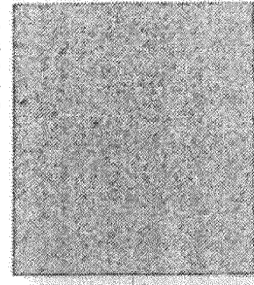
"ICL proved to be ideal business partners for the project, investing a great deal of time and effort in ensuring that the new system quickly delivered improved efficiency, reliability and productivity."

Shajee Ali Al Aleemi,
Health Registration Registrars
and Transportation Director at
the UAE Ministry of Health.

Delivering instant access

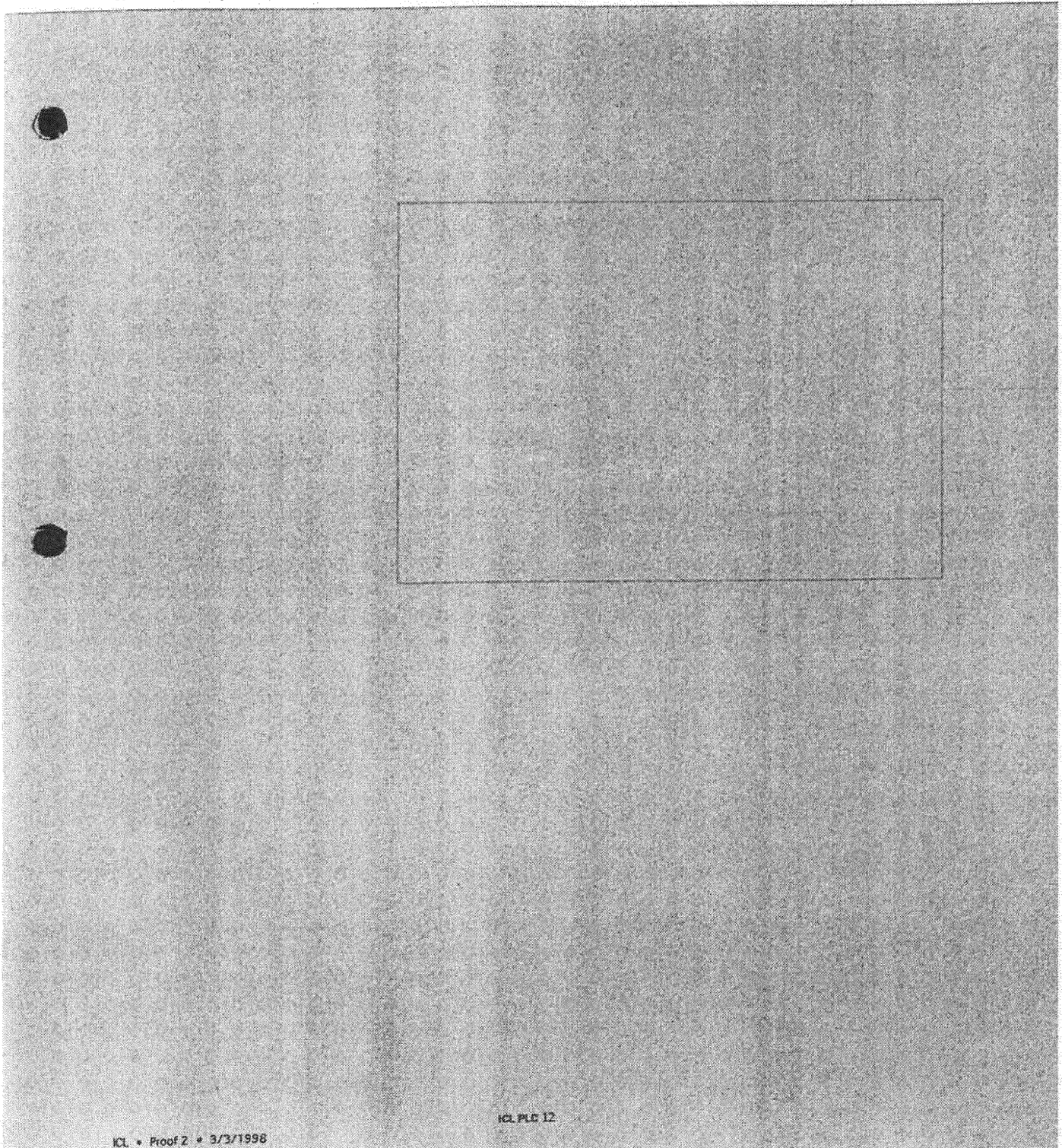
Review of Operations

The Merseyside Learning Partnership now plans to roll-out the MEON scheme to other schools in the area



"I am pleased to see innovative schemes like MEON being put into place. I am sure that both teachers and pupils at the schools taking part in this pilot venture will benefit greatly from their access to information technology."

David Blunkett, Secretary of State for Education and Employment.



Review of Operations

Case Study #4: WH Smith

The first on-line loyalty card to be developed by a High Street store, the WH Smith Clubcard delivers unique benefits to consumers while also generating practical, workable data for the retailer. ICL technology is at the heart of a system that is the most sophisticated in Europe.

Loyalty cards are now an integral part of most retailers' marketing armoury.

However, as supermarkets and others have rushed to introduce their own schemes, many have found that the systems they adopted actually create as many problems as they solve. Databases have been swamped by a deluge of data while research shows that customers are irritated by the time-lag between earning points and being able to redeem them.

Not surprisingly for a High Street chain committed to re-establishing itself as a major force in the hearts, minds and wallets of the nation, WH Smith wanted its own loyalty scheme to offer new, tangible advantages.

Based on ICL's PrecisionRetailing technology and customised by the use of rapid application-development tools, the Clubcard system is the first on-line solution of its kind. While traditional systems pass details of each transaction to central databases at the end of the working day, and advise customers by post of their points total, the Clubcard electronic dialogue is immediate.

The point-of-sale terminal dials Head Office and pulls down information on the customer and their points. The customer can decide whether or not to redeem the points there and then, with none of the time delays or vouchers that characterise other schemes. A dedicated Helpline has also been established to provide personal support to cardholders.

As far as the data gathered is concerned, Clubcard dovetails neatly with WH Smith's existing system, enabling them to analyse buying patterns across its 450 stores. The company will then use the information to target sales promotions to the 2.5 to 3 million customers who are expected to join the scheme.

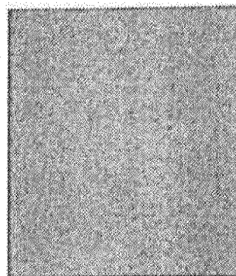
Clubcard has already generated additional revenue for the company. The average weekly spend by members has increased by 22% which has created a 3% incremental effect on sales nationally.

Loyalty pays dividends

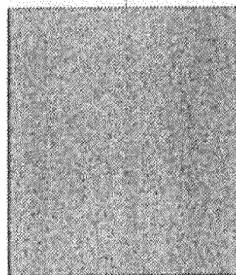
48%
48% of UK shoppers like the idea of being able to make their purchases from home via a PC or TV.

£5m
In an agreement worth more than £5m, ICL is managing the IT services of Virgin Vie, the new cosmetics retail organisation.

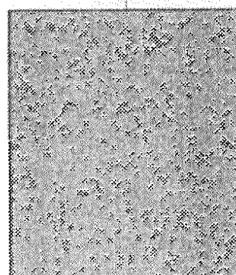
Customers' points are printed on the sales receipt and can be redeemed at once



With a wealth of up-to-date customer information delivered by Clubcard, WH Smith is able to target promotions with pinpoint accuracy, varying them from store to store if necessary.



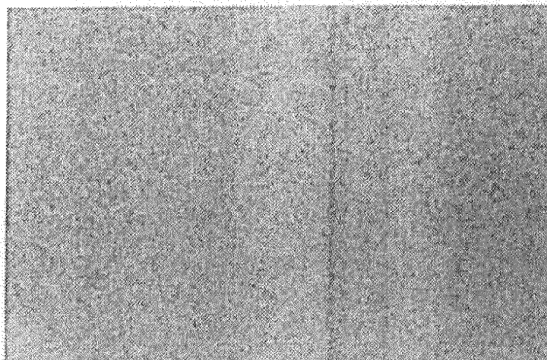
Close co-operation between WH Smith and ICL has been fundamental to Clubcard delivering exactly what research showed customers wanted



000
ICL staff in Reading are using the company's Intranet to order goods from the range of 000 items stocked by the local branch of Waitrose. The goods are delivered to the office for staff to take home in the evening.

£2.5m
ICL is installing and maintaining hardware and software at UK branches of Specsavers, the leading optical retail group, as part of a £2.5m contract.

Financial Review



The group's financial performance improved substantially in 1997. We achieved operating profits of £32.5 million against a loss of £6.6 million in 1996. Operating profits from continuing operations, excluding the effect of exceptional items, rose to £47.0 million in 1997 from £39.1 million in 1996, an increase of over 25%. Pre-tax profits were £26 M in 1997 compared to a pre-tax loss of £1.5 M in 1996. Profits after tax were £0.2 million in 1997 while in 1996 the group reported a loss of £19.2 million.

Growth rates varied by sector, with managed services growing by over 25%.

The growth in turnover from continuing operations, which was slightly less than 2%, was adversely impacted by the strength of Sterling during the period. Adjusted for this negative impact of approximately £130 million, turnover improved by approximately 7% year on year. Growth rates varied by sector, with managed services growing by over 25%.

The gross margin rate of the group reflects not only changes with individual business segments, but the changing mix of higher and lower

margin businesses within our portfolio. While the composite rate remained flat at 22.4% in both 1996 and 1997, this reflected improved margins in many of our newer service led businesses, lower margin rates in some more mature sectors, and significant growth in our lower margin low-end product distribution activities. Margins in 1997 also reflected costs related to the development of certain new market activities.

While cost control continues to be a major focus within the operations, we continued to invest significantly in Research and Development. R&D investment in continuing operations was £63.7 M in the year, compared with £69.5 million in 1996.

While at a lower level than in earlier periods, reflecting the improved focus of the business, divestment activity continued during 1997. We sold the UK spares repair operation to its management and divested a number of other small non-core activities. Profits on disposals totalled £10.3 M. We also reached agreement with Fujitsu for it to assume the principle development

Turnover £m

Information for graph to be supplied

Profit before Tax (Services Contribution)

Information for graph to be supplied

Management

Keith Todd

Chief Executive

See CEO's Review on pages 4-5

Andrew Boswell

Group Technical Director

In 1997 ICL continued to help our customers exploit the technologies which make the Information Society possible. We developed multimedia kiosk systems, encouraged the use of networked PCs in education and are actively developing on-line gaming for home entertainment. Electronic Commerce has also been a strong theme in 1997, while our SmartCard-based systems are making the cashless society a reality.

Richard Christou

Commercial & Legal Affairs Director

The Commercial and Legal Affairs Directorate ensures ICL keeps its statutory and other legal obligations and acts as a good corporate citizen, who maintains good business practices with fair contracts which benefit all parties – ICL, our clients and our partners.

Fiona Colquhoun

Human Resource Director

ICL competes for skills globally and change is an everyday event in managing the business. Our people have to be smart and effective with the real ability to deliver. We aim to make ICL an exciting and dynamic place to work and to create an environment which enables ICL to be a truly exceptional 'performance' company.

John Davison

Director, ICL Interactive

"beeb @ the BBC", the on-line service arising from ICL's alliance with BBC Worldwide, was launched during 1997 and is already one of the UK's leading Internet sites. "beeb" consists of constantly changing on-line magazines (or webzines) extending and developing some of the BBC's most popular brands in Motoring, Sport, Comedy and Travel. It also provides on-line and chat services, the latter featuring leading personalities.

Tim Escudier

President, ICL Financial Services

The Financial Services sector is facing unprecedented change. At a time when technology is facilitating the provision of Financial Services to the customer through the convergence of distribution channels, ICL is well positioned to provide its systems and services to new and traditional customers in this dynamic market.

First Direct with their Home Banking service, Lloyds Bank in the renewal of their branch system, and Bital in Mexico with the installation of 1000 ATM's illustrate how ICL is reaching out to help its customers.

Alan Gibson

Managing Director

ICL Enterprises Western & Central Europe

The Government division focused on securing a strong position in several key PFI bids; and building migration paths for Local Government towards Citizen Centric solutions. Telco enjoyed international growth in its mediation solutions, while Travel won significant airport and rail business. Defence is installing the world's largest secure, NT based, office infrastructure, and Utilities also enjoyed strong growth. Investment in Eastern Europe continued, with particular growth in countries destined for EU/NATO entry.

Robin Hacking

Group Sales & Marketing Director

The ICL brand has developed significantly in 1997. Brand recognition continues to be high in many Western and Central European countries, but now we see increasing recognition in the marketplace of the qualities and capabilities of the 'new' ICL as a Designer, Builder and Operator of large scale information systems and services.

Nigel Hartnell

Managing Director, ICL Services

ICL's considerable strengths in infrastructure and skills-based services were brought together early in 1997 to form ICL Services.

This established a strong focus for further rapid growth of the electronic commerce and network-based businesses where ICL has already established a market leadership position.

1997 has seen a 25% growth in the business and a large and expanding portfolio of blue-chip clients.

Marie-Anne van Ingen

Managing Director Tpic

The opening of Tpic's purpose built 141,000 sq ft Customer Logistics Centre has provided a highly automated logistics facility capable of accommodating a £1 billion operation. We ended 1997 with a £370 million turnover – a 28% increase on the previous year. The major success for 1997 was delivering our profit target and so achieving our business plan for the 3rd consecutive year.

Adrian King

President, ICL Retail Systems

1997 saw the launch of ICL Retail Systems consumer-centric strategy providing retailers with systems allowing them to understand consumer purchasing habits and then to service those consumers, through both traditional in-store environments and new techniques, such as workplace or home shopping. Understanding the consumer and providing innovative systems to service their needs is the key focus for the Retail Systems strategy in 1998, and we look forward to exciting times ahead.

David Palk

Managing Director, ICL Sorbus

During 1997 we have implemented pan European processes and consistent I.T. architecture to enable a step function improvement in customer satisfaction – particularly in some of our smaller subsidiaries. For example, in Italy the independent Prognostics survey for 1997 shows ICL as #1 for Customer Satisfaction.

Going into 1998 the key challenge for the business is to fully exploit our unique position in the market by accelerating our growth whilst continuing to deliver outstanding customer service levels.

Stefan Riesenfeld

Finance & Business Planning Director

See Financial Review on pages 16-17

David Teague

Managing Director High Performance Systems

During my three years as Managing Director, High Performance Systems has completely recreated itself, its products and its services offerings in order to fully underpin with technology and people skills the new ICL and its role in the Information Society. HPS has achieved this transition by building on its renowned core competences of quality, value and technical excellence.

Torsten Vieth

Managing Director,

ICL Enterprises Northern Europe

Since I took over as Managing Director for Enterprises Northern Europe in early 1997, the operation has been transformed into new lines of business, reflecting new market opportunities and ICL's role in shaping the future Information Society. The excellent solutions and services supplied by ICL matches the advanced requirements of the IT Market in the Nordic and Benelux regions.

H Watanabe

Director, Fujitsu Relations

1997 is the year that ICL can be truly called a systems and services company and Fujitsu is very pleased that ICL has achieved its profit target. The world-wide growth of ICL's systems and services business is seen as a valuable part of the group's globalisation strategy.

ICL PLC at 12 March 1998

Directors

M Naruto *Chairman*
Sir Peter Bonfield *cBE Deputy Chairman*
TK Todd *Chief Executive*
H Watanabe

Vicomte Davignon
K Fukagawa
T Furukawa
S Gillibrand
JC Monty (*alternate WK Gardener*)
JJ Ollila
H Sakai

Secretary

RF Scott

Auditors

Coopers & Lybrand

Registered Office

ICL House
1 High Street
Putney
London SW15 1SW
Registered in England
No. 142200

ICL Management Executive

TK Todd *Chief Executive*
AJ Boswell
R Christou
WJ Davison
T Escudier
RM Hacking
NR Hartnell
MA van Ingen
A King
DB Palk
SC Riesenfeld
DJ Teague
T Vieth
H Watanabe

*From 16 March 1998
26 Princes Street
London EC2A 1DS*

Report of the Directors

nearly x2.5

ICL PLC is UK public limited company. Fujitsu holds 90.1% of the ordinary shares and Northern Telecom of Canada has 9.9%. ICL is an information technology group, specialising in systems integration and services in selected markets. Operating worldwide, with 19,000 employees, ICL generated revenues of £2.5 billion in 1997.

During the year, the group purchased the interests of its partners in the ICL South African holding company thus increasing its investment in that country. The UK Repairs business was divested and there were some smaller divestments, *see notes* and investments. During the year an agreement was reached to demerge the TeamWARE Software business to Fujitsu.

The development of ICL's strategy is explained in the Chairman's statement on page, in the Chief Executive's statement on pages to and in the review of operations on pages to, which together constitute a review of the ICL group's business during the year, its position at the year end and its future prospects.

	1997 £m	1996 £m
Profit and dividends summary		
(...)/Profit for the financial year	10.6	(22.9)
Dividends paid and payable:		
Preference	(14.0)	(12.6)
(...)/profit for the year carried forward	(3.4)	(35.5)
<i>60.55</i>		

Registered Office and Headquarters

On 16 March 1998 the registered office of the Company and most of the ICL Group UK subsidiaries was [will be] changed to 26 Finsbury Square, London EC2A 1DS. ICL Group Headquarters activities [will be] principally carried out at Finsbury Square and at our HQ operations facility at Slough.

Research and development

Expenditure on research and development is shown in note ² to the accounts.

Quality

We continue to put our customers first and believe that everything can be continuously improved. The European model for total quality management is the framework of our drive for continuous improvement and every ICL business is required to review regularly its capability against the model to identify opportunities for improvement.

Report of the Directors

The board

The directors in office at the date of this report are shown on page of the report and accounts.

On 3 March 1997, K Kitazato and R E Livesey-Haworth resigned as directors and on 4 March 1997 H Sakai rejoined the Board.

Auditors

Coopers & Lybrand have expressed their willingness to be reappointed auditors of the company. A resolution to reappoint them and a resolution authorising the directors to fix the remuneration of the auditors will be proposed at the annual general meeting.

Directors' responsibilities

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

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) follow applicable accounting standards, subject to any material departures disclosed and explained in the financial statements;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group 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 of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that the financial statements comply with the above requirements.

By order of the board

RF Scott

Secretary

ICL House

Putney

London SW15 1SW

[date]

Notes to the financial statements

27 Ultimate holding company

The ultimate holding company is Fujitsu Limited, a company incorporated in Japan. A copy of its 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.

28 Related parties

Related party disclosures

At 31 December 1997 Fujitsu Limited, which is the company's controlling entity and ultimate holding company, held 90.1% of the voting shares of ICL PLC.

In accordance with Financial Reporting Standard 8 on related party disclosures ("FRS 8"), no disclosure is made of transactions and balances with:

- ICL PLC subsidiaries and investee companies which are consolidated;
- Fujitsu Limited and its subsidiaries;
- Fujitsu Limited investee companies;
- Former ICL subsidiaries which were sold within the Fujitsu group during the year.

There are no Fujitsu group related parties who do not qualify as Fujitsu subsidiaries or investees with whom ICL PLC and its subsidiaries and investee companies have traded. No FRS 8 disclosures are therefore required in this respect.

Certain related party disclosures are shown throughout the notes to the financial statements as follows:

- | | |
|---|---------|
| - Directors' remuneration | Note 12 |
| - Investment in associated undertakings | Note 15 |
| - Activities and percentage ownership of associates | Page xx |
| - Income from other fixed asset investments | Note 5 |

Related party transactions

Camelot Group plc

International Computers Limited ("ICL"), a wholly owned subsidiary of ICL PLC, holds a 10% interest in Camelot Group plc ("Camelot"). During the year, ICL received a cash dividend of £0,000,000 from Camelot (1996 - £2,361,000).

ICL Sorbus UK Limited, a wholly owned subsidiary of ICL PLC, provided computer facilities management services to Camelot amounting to £00,000,000, of which £00,000 (1996 - £82,000) was owing at the end of the year.

Pension funds

[ICL Data OY pension fund borrowings?]

ICL PLC GROUP ACCOUNTS

The 1997 draft consolidated accounts for the group are attached. The audit is now substantially complete and no material changes to this draft are anticipated other than that noted below.

We are in continuing discussions with the auditors about the form of a disclosure note in respect of the Pathway contract and on the reference to this contract in the auditors' report.

A further update on this position will be given to the Audit Committee and Board meeting on 12 March.

GRO

Stefan Riesenfeld

Consolidated profit and loss account
for the year ended 31 December 1997

	Notes	Continuing operations		Discontinued operations	Total	Total	
		Exceptional items	Total continuing				
		1997 £m	1997 £m	1997 £m	1997 £m	1996 £m	
Turnover	1,2	2,474.1	-	2,474.1	3.0	2,477.1	2,916.9
Cost of sales	2	1,920.2	-	1,920.2	(5.1)	1,915.1	2,331.6
Gross profit		553.9		553.9	8.1	562.0	585.3
Net operating expenses	2	504.9	1.5	506.4	23.1	529.5	591.9
Operating profit/(loss)	3	49.0	(1.5)	47.5	(15.0)	32.5	(6.6)
Exceptional items	4						
Profit on disposal of discontinued operations		-	-	-	10.3	10.3	17.0
Loss on disposal of fixed asset investments		-	-	-	-	-	(0.1)
Share of (losses)/profits from interests in associated undertakings		(0.3)	-	(0.3)	-	(0.3)	1.5
Income from other fixed asset investments	5	4.4	-	4.4	-	4.4	3.2
Profit on ordinary activities before interest		53.1	(1.5)	51.6	(4.7)	46.9	15.0
Net interest payable	6					(16.9)	(17.5)
Profit/(loss) on ordinary activities before taxation						30.0	(2.5)
Taxation	7					(19.8)	(16.7)
Profit/(loss) on ordinary activities after taxation						10.2	(19.2)
Minority interests (all equity)						0.4	(3.7)
Profit/(loss) for the financial year						10.6	(22.9)
Dividends - preference	9					(14.0)	(12.6)
Loss carried forward	22					(3.4)	(35.5)
Loss per ordinary share (pence)	10					(0.3)	(3.8)

Balance sheets
at 31 December 1997

	Notes	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Fixed assets					
Intangible assets	13	39.5	39.4	-	-
Tangible assets	14	211.5	176.5	-	-
Investments	15	94.3	96.5	512.0	512.0
		<u>345.3</u>	<u>312.4</u>	<u>512.0</u>	<u>512.0</u>
Current assets					
Stocks	16	324.6	253.5	-	-
Debtors - falling due within one year	17	527.2	558.1	258.8	249.8
- falling due after more than one year	17	27.2	25.4	-	-
Cash at bank and in hand		49.9	117.6	0.5	6.9
		<u>928.9</u>	<u>954.6</u>	<u>259.3</u>	<u>256.7</u>
Creditors: amounts falling due within one year					
Loans and overdrafts	18	(204.3)	(176.5)	-	-
Other liabilities	18	(698.8)	(673.2)	(7.8)	(6.6)
Net current assets		<u>25.8</u>	<u>104.9</u>	<u>251.5</u>	<u>250.1</u>
Total assets less current liabilities		371.1	417.3	763.5	762.1
Creditors: amounts falling due after more than one year					
Loans and overdrafts	19	(26.1)	(32.1)	-	-
Other liabilities	19	(47.3)	(49.0)	-	-
Provisions for liabilities and charges	20	(32.0)	(40.6)	-	-
		<u>265.7</u>	<u>295.6</u>	<u>763.5</u>	<u>762.1</u>
Capital and reserves					
Called up share capital	21	315.9	315.9	315.9	315.9
Share premium account	22	233.9	233.9	233.9	233.9
Capital redemption reserve	22	13.2	13.2	13.2	13.2
Profit and loss account	22	(303.7)	(281.7)	200.5	199.1
Shareholders' funds		<u>259.3</u>	<u>281.3</u>	<u>763.5</u>	<u>762.1</u>
Minority interests (all equity)		6.4	14.3	-	-
		<u>265.7</u>	<u>295.6</u>	<u>763.5</u>	<u>762.1</u>
Shareholders' funds are analysed as follows:					
Equity interests		92.0	114.0	596.2	594.8
Non-equity interests		167.3	167.3	167.3	167.3
		<u>259.3</u>	<u>281.3</u>	<u>763.5</u>	<u>762.1</u>

The financial statements on pages xx to xx were approved by the board on xx March 1998 and signed on its behalf by

Director

Statement of total recognised gains and losses
for the year ended 31 December 1997

	Notes	1997 £m	1996 £m
Profit/ (loss) for the financial year		10.6	(22.9)
Currency translation difference on foreign currency net investments	22	(8.9)	(22.4)
Total recognised gains and losses for the year		<u>1.7</u>	<u>(45.3)</u>

Note of historical cost profits and losses

The result as disclosed in the consolidated profit and loss account is based on the historical cost convention.

Reconciliation of movements in shareholders' funds
for the year ended 31 December 1997

	Notes	1997 £m	1996 £m
Profit/ (loss) for the financial year		10.6	(22.9)
Dividends	9	(14.0)	(12.6)
		<u>(3.4)</u>	<u>(35.5)</u>
Currency translation difference on foreign currency net investments	22	(8.9)	(22.4)
Goodwill	23	(9.7)	20.0
New share capital subscribed		-	200.0
Share issue expenses		-	(0.2)
Net (reduction in) / addition to shareholders' funds		<u>(22.0)</u>	<u>161.9</u>
Opening shareholders' funds		281.3	119.4
Closing shareholders' funds		<u>259.3</u>	<u>281.3</u>

Cash flow statement

for the year ended 31 December 1997

	Notes	1997 £m	1997 £m	1996 £m	1996 £m
Cash flow from operating activities	i		37.9		(87.3)
Returns on investment and servicing of finance					
Interest received		13.1		3.7	
Interest paid		(28.3)		(21.9)	
Interest element of finance lease rentals		(2.4)		(2.6)	
Non-equity dividends paid		(12.5)		(12.6)	
Dividends paid to minority shareholders		(1.9)		(4.7)	
Dividends received		4.5		3.2	
Net cash outflow for servicing of finance			(27.5)		(34.9)
Taxation					
UK Corporation tax paid		(0.1)		(0.4)	
Overseas tax paid		(8.4)		(12.9)	
Net cash outflow for tax paid			(8.5)		(13.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(120.3)		(85.9)	
Proceeds of sale of fixed assets		14.4		9.6	
Capitalisation of intangible fixed assets		(23.0)		(23.7)	
Purchase of fixed asset investments		(0.5)		(1.3)	
Proceeds of sale of fixed asset investments		-		2.8	
Net cash outflow for capital expenditure and financial investment			(129.4)		(98.5)
			(127.5)		(234.0)
Acquisitions and disposals					
Purchase of subsidiary undertakings		(12.4)		(14.3)	
Disposal of subsidiary undertakings and businesses	ii	12.5		75.1	
Net bank balances sold with businesses	iii	(3.9)		(7.5)	
Proceeds received in respect of prior year disposals	iii	37.9		-	
Net cash inflow for acquisitions and disposals			34.1		53.3
Cash outflow before financing			(93.4)		(180.7)
Financing	iv				
Issue and redemption of shares		-		199.8	
Increase/(decrease) in debt and lease financing		17.2		(9.6)	
Net cash inflow from financing			17.2		190.2
(Decrease)/increase in cash in the year			(76.2)		9.5
Reconciliation of net cash flow to movement in net debt	v				
(Decrease)/increase in cash in the year			(76.2)		9.5
Cash (inflow)/outflow from increase in debt and lease financing			(17.2)		9.6
Change in net debt resulting from cash flows			(93.4)		19.1
Loans sold with subsidiary			-		11.6
Translation difference			(17.5)		(23.3)
Movement in net debt in the year			(110.9)		7.4
Net debt at beginning of year			(125.9)		(133.3)
Net debt at end of year			(236.8)		(125.9)

Notes to the cash flow statement

	1997 £m	1996 £m
i Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities		
Operating profit/(loss)	32.5	(6.6)
Depreciation	76.6	91.7
Loss/(profit) on sale of fixed assets	10.0	(0.4)
Cash flow relating to restructuring	(13.3)	(56.8)
Working capital - (increase)/decrease		
Stocks	(72.8)	(23.7)
Debtors	(30.0)	(18.1)
Creditors	29.5	(63.7)
Increase/ (decrease) in provisions	5.4	(9.7)
	<u>37.9</u>	<u>(87.3)</u>
ii Purchase of subsidiary undertakings		
Net assets acquired:		
Tangible fixed assets	1.5	-
Intangible fixed assets	0.6	-
Investments	-	-
Stocks	3.3	-
Debtors	7.2	-
Bank balances	-	-
Creditors due in less than one year	(13.7)	-
Bank loans	-	-
Minority shareholders' interests	4.7	4.5
	<u>3.6</u>	<u>4.5</u>
Goodwill	9.7	9.8
	<u>13.3</u>	<u>14.3</u>
Satisfied by:		
Cash	12.4	14.3
Deferred purchase consideration	0.5	-
Reclassification from fixed asset investment	0.4	-
	<u>13.3</u>	<u>14.3</u>
Analysis of the net cash outflow in respect of acquisitions:		
Cash consideration	<u>12.4</u>	<u>14.3</u>
iii Disposal of subsidiary undertakings and businesses		
Net assets disposed of:		
Tangible fixed assets	2.4	43.5
Intangible fixed assets	0.3	4.9
Fixed asset investments	-	1.0
Stocks	2.4	126.9
Debtors	5.2	150.9
Bank balances	3.9	7.5
Creditors due in less than one year	(7.8)	(162.6)
Bank loans	-	(11.6)
Provisions	-	(5.6)
Minority interests	(0.9)	(0.1)
	<u>5.5</u>	<u>154.8</u>
Profit on disposal before goodwill	10.3	17.0
Goodwill on disposals	-	29.8
	<u>15.8</u>	<u>201.6</u>
Satisfied by:		
Cash	12.9	75.1
Deferred sales consideration	1.3	50.3
Fixed asset investments	1.6	76.2
	<u>15.8</u>	<u>201.6</u>
Analysis of the net cash inflow in respect of disposals:		
Cash consideration	12.9	75.1
Cash payment to acquire fixed asset investment	(0.4)	-
	<u>12.5</u>	<u>75.1</u>
Net bank balances of businesses disposed of	(3.9)	(7.5)
Proceeds received in respect of prior year disposals	37.9	-
	<u>46.5</u>	<u>67.6</u>

Notes to the cash flow statement

	1997 £m	1996 £m
iv Financing		
Issue of ordinary share capital	-	200.0
Share issue expenses	-	(0.2)
	<u>-</u>	<u>199.8</u>
Repayment of short term borrowings	(2.2)	(0.2)
New long term borrowings	1.8	6.5
Repayment of long term borrowings	(3.8)	(21.7)
New finance leases	29.5	5.8
Capital element of finance lease payments	(8.1)	-
	<u>17.2</u>	<u>(9.6)</u>
Net cash inflow from financing	<u>17.2</u>	<u>190.2</u>

v Analysis of net debt

	At 1 Jan 1997 £m	Cash flow £m	Exchange movement £m	At 31 Dec 1997 £m
Cash in hand and at bank	117.6	(45.0)	(22.7)	49.9
Overdrafts	(173.7)	(31.2)	1.2	(203.7)
	<u>(56.1)</u>	<u>(76.2)</u>	<u>(21.5)</u>	<u>(153.8)</u>
Debt due within one year	(2.8)	2.2	-	(0.6)
Debt due after one year	(32.1)	2.0	4.0	(26.1)
Finance leases	(34.9)	(21.4)	-	(56.3)
	<u>(69.8)</u>	<u>(17.2)</u>	<u>4.0</u>	<u>(83.0)</u>
Total	<u>(125.9)</u>	<u>(93.4)</u>	<u>(17.5)</u>	<u>(236.8)</u>

Accounting policies

D:\00Mail\[\CLPLC9.xls]BS

Accounting basis

The financial statements are prepared on the historical cost basis of accounting and in compliance with applicable accounting standards.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings, made up to 31 December, together with the group's share of the net assets and results of associated undertakings.

Profits and losses of subsidiary undertakings and the proportion of profits and losses of associated undertakings attributable to the group shareholding are included from the date of acquisition or to the date of disposal.

Goodwill

Goodwill arising on the acquisition of subsidiary and associated undertakings is written off to reserves in the year of acquisition. The profit or loss on disposal of businesses is stated after including attributable goodwill which has previously been written off to reserves.

Foreign currency

Profits and losses in foreign currencies are translated into sterling at average rates of exchange for the year. Assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising on the retranslation of the net assets of overseas operations are taken to reserves, together with exchange gains and losses on related foreign currency loans and other hedging instruments.

Foreign currency trading transactions are translated at the rates of exchange ruling at the date of the transactions or, where applicable, at contracted forward currency rates. All other exchange differences are taken to the profit and loss account.

Turnover

Turnover comprises revenue from the sale and hire of computer hardware, software and systems and from maintenance and other information technology services.

Leasing

Where assets are financed by leasing agreements which give rights approximating to ownership ("finance leases"), the assets are capitalised in the balance sheet at the present value of the minimum lease payments. The corresponding leasing commitments are shown as lease obligations within creditors. Depreciation on capitalised leased assets is charged to the profit and loss account.

All other leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

Where product is supplied to customers under finance leases, turnover is recognised when the initial contractual commitments to customers have been met. The corresponding lease receivables due from customers are removed from the balance sheet where the group secures equivalent non-recourse funding from banks on terms whereby the banks take the risks and rewards in relation to default and slow payment. Customer lease contracts for which non-recourse bank funding is not obtained are treated as operating leases and rental income is recognised in the accounting period in which it is earned.

Stocks

Stocks are valued at the lower of cost and net realisable value, full allowance having been made for obsolete or slow moving items. Cost of stocks includes the appropriate portion of operating overheads.

Development expenditure

The costs of producing software products are capitalised as intangible fixed assets once a detailed program design or working model has been established. These assets are amortised on a straight line basis over their estimated lives, which are usually between 3 and 4 years. Costs incurred in establishing the design or working model and the costs of maintaining existing products are written off as incurred.

All other development expenditure is written off in the accounting period in which it is incurred.

Accounting policies

Depreciation

The cost of tangible fixed assets, less any grants received, is depreciated in equal annual instalments over their estimated useful lives. The principal annual rates of depreciation are:

Equipment on rental to customers	24%
Freehold land	nil
Freehold buildings	2.5%
Leasehold land and buildings	Over life of lease
Plant and machinery	10% - 36%
Fixtures, fittings and equipment	15% - 25%
Own use computer equipment	20% - 36%

Long term contracts

Where long term contracts are in respect of the development of a system, turnover is recognised on achievement of specific contract milestones. Profit is recognised only when the outcome of the contract can be assessed with reasonable certainty and then only as a prudent portion of the projected profit. Provision is made for any foreseeable losses.

Where long term contracts relate to the supply of standard products or services, turnover and the related costs are recognised in the accounting period in which the service is supplied.

Taxation

Taxation is provided for the estimated liability for the year at rates ruling in the countries where the group operates.

Deferred taxation arising on timing differences between the treatment of certain items for accounting and tax purposes is provided on the liability method, except to the extent that it can be demonstrated with reasonable probability that the taxation will not become payable in the foreseeable future. In accordance with Amendment to Statement of Standard Accounting Practice 15, a deferred tax benefit is recognised in respect of any excess of pension cost provided in the financial statements over amounts paid to pension schemes.

Pensions

Most group companies operate pension schemes for the majority of employees. The United Kingdom scheme is administered by a trustee and its funds are independent of the group's finances. Actuarial valuations are normally carried out every three years with the contributions payable and the pension cost being determined on the advice of the actuaries.

The cost of providing pensions is charged against profits on a systematic basis over the service lives of employees. Pension surpluses and deficits are amortised and recognised in the profit and loss account over the average remaining service lives of the employees. Any differences between the amounts charged to profit and contributions paid are included in debtors or creditors as appropriate.

Related parties

Financial Reporting Standard 8 (FRS8) requires the disclosure of material transactions and balances between the reporting entity and related parties. The group takes advantage of the subsidiary undertaking exemption within FRS8 and has not disclosed trading with other Fujitsu group companies in its financial statements.

Notes to the financial statements

1 Segment analysis

Class of business The group operates in only one class of business, that of providing customer solutions incorporating computer-based information systems, software and services.

Geographic analysis

	Europe		Africa, South and West Asia		Asia Pacific		North America		Group	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Turnover										
Turnover by destination	2,189.1	2,538.8	95.4	113.3	18.6	42.9	174.0	221.9	2,477.1	2,916.9
Turnover by origin	2,231.8	2,622.1	91.1	106.1	-	22.7	169.8	205.6	2,492.7	2,956.5
Inter segment sales	14.0	38.0	0.2	-	-	0.5	1.4	1.1	15.6	39.6
Sales to third parties	2,217.8	2,584.1	90.9	106.1	-	22.2	168.4	204.5	2,477.1	2,916.9
Profit before taxation										
Operating profit/(loss)	36.8	(21.4)	3.1	6.0	-	2.3	(7.4)	6.5	32.5	(6.6)
Exceptional items									10.3	16.9
Net interest and other income									(12.5)	(14.3)
Group share of (loss)/profit before taxation of associated undertakings	1.2	2.1	-	-	(1.5)	(0.6)	-	-	(0.3)	1.5
Group profit before taxation									30.0	(2.5)
Net assets										
Segment net assets	217.6	232.1	15.3	16.4	-	2.5	22.1	31.7	255.0	282.7
Group share of net assets of associated undertakings	3.3	3.5	-	-	7.4	9.4	-	-	10.7	12.9
Total net assets	220.9	235.6	15.3	16.4	7.4	11.9	22.1	31.7	265.7	295.6

The directors are of the opinion that further disclosure of geographic areas within Europe would be seriously prejudicial to the interests of the group.

Notes to the financial statements

2 Turnover, cost of sales and net operating expenses

	1997 Continuing operations £m	1997 Discontinued operations £m	1997 Total £m	1996 Continuing operations £m	1996 Discontinued operations £m	1996 Total £m
Turnover	2,474.1	3.0	2,477.1	2,433.8	483.1	2,916.9
Cost of sales	1,920.2	(5.1)	1,915.1	1,888.1	443.5	2,331.6
Net operating expenses:						
Research and development	63.7	7.8	71.5	69.5	31.8	101.3
Marketing and distribution	428.8	15.3	444.1	410.6	66.8	477.4
Administration expenses	13.9	-	13.9	13.2	-	13.2
	506.4	23.1	529.5	493.3	98.6	591.9

Continuing operations for 1997 include the following amounts relating to acquisitions (1996 - nil): turnover £17.7 million, cost of sales - £15.6 million and marketing and distribution costs - £2.5 million.

Continuing operations for 1997 include an exceptional charge of £1.5 million shown in marketing and distribution costs (1996 - a credit of £13.3 million, of which £3.9 million is shown in research and development and £9.4 million in cost of sales).

Details of exceptional items are shown in note 4.

3 Operating profit/(loss)

	1997 £m	1996 £m
The operating profit/(loss) is stated after charging:		
Depreciation:		
- owned assets	47.0	54.3
- finance leased assets	9.6	8.2
- software program products	20.0	29.2
	76.6	91.7
Included within depreciation above is £5.0m (1996: £0.6m) recoverable from customers in respect of long term contracts.		
Auditors' remuneration		
- audit (company - £10,000 (1996 - £10,000))	1.6	1.9
- other services to the company and its UK subsidiaries	1.9	2.9
Exchange (gains)/losses	(1.2)	0.4

4 Exceptional items

Continuing operations:

	1997 £m	1996 £m
Rationalisation expenditure	1.5	(6.3)
Provision for cost of vacant properties	-	(7.0)
	1.5	(13.3)

Discontinued operations:

	1997 £m	1996 £m
Profit on disposal of businesses and subsidiary undertakings:		
Sorbus repair business	6.9	-
ICL Volume Products business	-	(7.8)
Design to Distribution business	-	2.0
ICL Medical business	-	14.5
ICL Sorbus Espana SA	-	(10.1)
Access Manager business	-	15.7
Other disposals and part disposals	3.4	2.7
	10.3	17.0

Profits on disposal in 1996 are stated after charging £29.8 million of goodwill.

(Loss) on disposal of fixed asset investments:

Sanderson Electronics PLC	-	0.8
Xscribe Corporation	-	(0.9)
	-	(0.1)

Notes to the financial statements

5 Income from other fixed asset investments	1997	1996
	£m	£m
Dividends from fixed asset investments	4.4	3.2

6 Net interest payable	1997	1996
	£m	£m
Interest payable on bank loans and overdrafts	17.9	18.2
Finance lease interest	2.4	2.6
Interest payable on other loans	1.8	1.4
	<u>22.1</u>	<u>22.2</u>
Interest receivable	(5.2)	(4.7)
	<u>16.9</u>	<u>17.5</u>

During the year interest of £3.5m (1996: £nil) was capitalised in relation to long term projects.

7 Taxation on profit on ordinary activities	1997	1996
	£m	£m
UK corporation tax, based on profit/(loss) for the year:		
- current year	0.2	(0.1)
- prior years	0.8	(0.4)
	<u>1.0</u>	<u>(0.5)</u>
Advance corporation tax	1.3	(0.1)
Tax credit on franked investment income	0.9	0.5
Overseas tax	16.7	10.4
Deferred tax	(0.3)	5.7
Associated undertakings	0.2	0.7
	<u>19.8</u>	<u>16.7</u>

UK corporation tax has been provided at 31.5% (1996 - 33%). The high tax charge is mainly the result of the incidence of losses for which relief is not available.

8 Company profit	1997	1996
	£m	£m
Profit for the financial year dealt with in the accounts of ICL PLC	15.4	13.0

The company is exempt under Section 230 (3) of the Companies Act 1985 from presenting its own profit and loss account.

9 Dividends	1997	1996
	£m	£m
Preference:		
- 9.15% net (formerly 9.40% gross) convertible cumulative redeemable preference shares	7.0	6.3
- 9.15% net (formerly 9.40% gross) cumulative redeemable preference shares	7.0	6.3
	<u>14.0</u>	<u>12.6</u>

Notes to the financial statements**10 Loss per ordinary share**

The loss per ordinary share is calculated by dividing the loss after charging tax, preference dividends and minority interests (£3.4 million; 1996 - £35.5 million) by the average number of shares in issue during the year (1,096.5 million; 1996 - 927.1 million).

11 Employees

	1997 £m	1996 £m
Employee costs		
Wages and salaries	583.0	679.0
Social security costs	70.1	86.2
Other pension costs	23.1	24.0
	<u>676.2</u>	<u>789.2</u>
Number of employees in the group		
	Number	Number
Average weekly number of people employed by the group during the year:		
Systems integration	9,135	9,323
Outsourcing	2,572	2,262
System service	4,582	4,678
Consultancy and training	925	854
Specialised hardware and software solutions	1,280	1,485
Other activities	298	329
	<u>18,792</u>	<u>18,931</u>
Discontinued activities	316	3,494
	<u>19,108</u>	<u>22,425</u>
Total at 31 December	<u>19,044</u>	<u>19,035</u>

1996 has been restated in line with current ICL business organisation

Notes to the financial statements**12 Directors**

	1997	1996
	£000	£000

Directors' emoluments

The emoluments of the directors of the company for the year were as follows:

Aggregate emoluments	525	619
Amounts receivable under long term incentive schemes	-	-
Company pension contributions to money purchase schemes	-	-
Company pension contributions to defined benefit schemes	8	93
Compensation for loss of office	301	-
Pensions to former directors	31	30

Retirement benefits are accruing to two directors (1996 - three) under defined benefit schemes. No directors have accrued benefits under money purchase schemes.

Disclosure in respect of highest paid director:

Aggregate emoluments and benefits under long term incentive schemes	357	338
Company pension contributions to money purchase schemes	-	-
Defined benefit scheme:		
- Accrued annual pension entitlement at 31 December	94	73
- Accrued lump sum entitlement at 31 December	-	-

Neither the highest paid director nor any other director exercised share options during the year. No directors received shares under long term incentive schemes.

Directors' interests

Set out below against their names are the interests of the directors of the company shown in the Register of Directors' Interests required to be kept under the Companies Act 1985. None of the other directors had any interests entered in the Register at 31 December 1997.

	Number 31 Dec 1997	Number 1 Jan 1997*
ICL PLC: options granted over ordinary shares of 25 pence		
T K Todd	1,450,000	150,000
Fujitsu Limited: common shares of Y50		
K Fukagawa	15,000	15,000
T Furukawa	53,552	53,552
M Naruto	19,000	18,000
H Sakai	5,000	3,000
H Watanabe	8,000	8,000

* or on subsequent appointment

Notes to the financial statements

13 Intangible fixed assets

	Software program products
	£m
Cost	
At 1 January 1997	77.3
Exchange adjustments	(1.7)
Disposals & elimination of fully depreciated costs	(18.7)
Additions	23.0
At 31 December 1997	<u>79.9</u>
Accumulated depreciation	
At 1 January 1997	37.9
Exchange adjustments	(1.1)
Disposals & elimination of fully depreciated costs	(16.4)
Charge for the year	20.0
At 31 December 1997	<u>40.4</u>
Net book value	
At 31 December 1997	<u>39.5</u>
At 31 December 1996	<u>39.4</u>

14 Tangible fixed assets

	Land and buildings	Plant and machinery	Equipment on rental to customers	Fixtures, fittings & equipment	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 1997	112.3	265.9	28.4	74.7	481.3
Exchange adjustments	(1.3)	(6.9)	(1.1)	(1.5)	(10.8)
Additions	12.6	92.4	3.7	11.6	120.3
Disposals & elimination of fully depreciated costs	(13.1)	(52.5)	(9.7)	(11.5)	(86.8)
Transfers and reclassifications	0.6	(1.9)	-	1.3	-
At 31 December 1997	<u>111.1</u>	<u>297.0</u>	<u>21.3</u>	<u>74.6</u>	<u>504.0</u>
Accumulated depreciation					
At 1 January 1997	39.5	185.9	22.7	56.7	304.8
Exchange adjustments	(0.6)	(4.6)	(0.9)	(1.3)	(7.4)
Disposals & elimination of fully depreciated costs	(4.5)	(40.2)	(7.1)	(9.7)	(61.5)
Transfers and reclassifications	1.0	(1.9)	(0.1)	1.0	-
Charge for the year	7.1	39.9	2.9	6.7	56.6
At 31 December 1997	<u>42.5</u>	<u>179.1</u>	<u>17.5</u>	<u>53.4</u>	<u>292.5</u>
Net book value					
At 31 December 1997	<u>68.6</u>	<u>117.9</u>	<u>3.8</u>	<u>21.2</u>	<u>211.5</u>
At 31 December 1996	<u>72.8</u>	<u>80.0</u>	<u>5.7</u>	<u>18.0</u>	<u>176.5</u>
				1997	1996
Land and buildings				£m	£m
Freehold				16.5	9.9
Long leasehold (over 50 years unexpired)				12.2	18.3
Short leasehold (under 50 years unexpired)				39.9	44.6
				<u>68.6</u>	<u>72.8</u>

Plant and machinery includes own use data processing equipment with a net book value of £82.8 million (1996 - £48.8 million). The net book value of tangible fixed assets includes £10.4 million (1996 - £19.0 million) in respect of finance leased assets.

Capital expenditure commitments

Contracted but not provided	<u>16.7</u>	<u>83.5</u>
-----------------------------	-------------	-------------

Notes to the financial statements**15 Fixed assets - investments**

Company	£m		
Subsidiary undertakings at cost at 1 January and 31 December 1997			512.0
	Shares in associated undertakings	Other investments	Total
Group	£m	£m	£m
At 1 January 1997	12.9	83.6	96.5
Exchange adjustments	(2.1)	(1.2)	(3.3)
Additions	0.5	1.6	2.1
Group share of retained losses	(0.6)	-	(0.6)
Disposals and other movements	-	(0.4)	(0.4)
At 31 December 1997	10.7	83.6	94.3

Investments in associated undertakings are stated at the group's share of their underlying net asset value. The original cost of these investments was £14.8 million (1996 - £14.7 million).

Other investments are stated at cost less provision for permanent diminution in value. The original cost of these investments was £83.8 million (1996 - £87.5 million).

The total book value of listed investments is £1.4 million (1996 - £1.1 million). Their market value was £1.7 million (1996 - £1.7 million).

Principal subsidiary and associated undertakings are listed on page xx.

16 Stocks

	Group 1997 £m	Group 1996 £m
Work in progress	124.1	86.1
Payments on account	-	(23.0)
	<u>124.1</u>	<u>63.1</u>
Components and raw materials	0.4	0.9
Finished goods		
- spares and other stocks	100.6	98.2
- computer hardware	99.5	91.3
	<u>324.6</u>	<u>253.5</u>

The replacement cost of stock is not considered to be materially different from the balance sheet value.

17 Debtors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts falling due within one year				
Trade debtors	417.5	404.4	-	-
Amounts owed by group undertakings	5.6	6.3	236.0	236.8
Amounts owed by associated undertakings	0.3	0.2	-	-
Amounts owed by related parties	-	5.9	-	-
Advance corporation tax recoverable	-	0.7	-	-
Corporation tax recoverable	5.0	11.2	-	-
Other debtors	37.5	71.7	-	-
Prepayments and accrued income	61.3	57.7	-	-
Dividends receivable	-	-	22.8	13.0
	<u>527.2</u>	<u>558.1</u>	<u>258.8</u>	<u>249.8</u>
Amounts falling due after more than one year				
Trade debtors	2.5	7.4	-	-
Amounts owed by group undertakings	0.5	-	-	-
Advance corporation tax recoverable	-	0.9	-	-
Other debtors	4.2	3.7	-	-
Prepayments and accrued income	20.0	13.4	-	-
	<u>27.2</u>	<u>25.4</u>	<u>-</u>	<u>-</u>
	<u>554.4</u>	<u>583.5</u>	<u>258.8</u>	<u>249.8</u>

Notes to the financial statements

18 Creditors - amounts falling due within one year

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Loans and overdrafts				
Bank loans and overdrafts	203.7	173.7	-	-
Portion of long term loans due with one year (Note 19)	0.6	2.8	-	-
	<u>204.3</u>	<u>176.5</u>	<u>-</u>	<u>-</u>
Other liabilities				
Payments received on account	38.3	45.4	-	-
Trade creditors	206.0	195.6	-	-
Obligations under finance leases	26.0	18.5	-	-
Amounts due to group undertakings	48.4	32.7	-	-
Amounts due to associated undertakings	-	0.1	-	-
Amounts due to related parties	-	1.4	-	-
Corporate taxation	8.8	4.5	-	-
Advance corporation tax	-	1.6	-	-
Other taxation and social security	53.1	67.4	-	-
Other creditors	161.4	136.3	-	-
Accruals and deferred income	149.0	163.4	-	0.3
Dividends	7.8	6.3	7.8	6.3
	<u>698.8</u>	<u>673.2</u>	<u>7.8</u>	<u>6.6</u>
	<u>903.1</u>	<u>849.7</u>	<u>7.8</u>	<u>6.6</u>

19 Creditors - amounts falling due after more than one year

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Loans				
Bank loans - secured	1.5	2.5	-	-
Bank loans - unsecured	-	3.4	-	-
Other loans - secured	-	1.7	-	-
Other loans - unsecured	25.2	27.3	-	-
Less portion due within one year (Note 18)	(0.6)	(2.8)	-	-
	<u>26.1</u>	<u>32.1</u>	<u>-</u>	<u>-</u>
Borrowings are repayable over the following periods:				
Between one and two years	0.6	4.9	-	-
Between two and five years	0.3	-	-	-
Over five years	25.2	27.2	-	-
	<u>26.1</u>	<u>32.1</u>	<u>-</u>	<u>-</u>
Other liabilities				
Payments received on account	-	11.1	-	-
Obligations under finance leases:				
- payable in more than one but less than five years	30.3	12.5	-	-
- payable in more than five years	-	3.9	-	-
Other creditors	15.0	16.3	-	-
Accruals and deferred income	2.0	5.2	-	-
	<u>47.3</u>	<u>49.0</u>	<u>-</u>	<u>-</u>
	<u>73.4</u>	<u>81.1</u>	<u>-</u>	<u>-</u>

Borrowings not wholly repayable within five years include £24.9m of loans from the ICL Data OY pension fund on which interest of 5.5% is payable. (See note 28.) Amounts due to secured creditors are subject to a floating charge on all the assets of a subsidiary undertaking.

Notes to the financial statements

20 Provisions for liabilities and charges

	Deferred taxation £m	Rational isation £m	Litigation £m	Total £m
At 1 January 1997	4.6	34.5	1.5	40.6
Transfers	0.1	-	-	0.1
Exchange adjustments	-	(0.3)	(0.2)	(0.5)
Charge/(credit) to profit and loss account	(0.3)	3.7	1.7	5.1
Utilised during year	-	(13.3)	-	(13.3)
At 31 December 1997	4.4	24.6	3.0	32.0

Rationalisation includes staff termination and vacant property costs.

The deferred taxation provision /(asset) is made up as follows:

	Provided 1997 £m	Provided 1996 £m	Unprovided 1997 £m	Unprovided 1996 £m
Accelerated capital allowances	-	-	(15.2)	(8.7)
Advance corporation tax recoverable	-	-	-	(1.5)
Tax losses	-	-	(15.2)	(17.8)
Other timing differences	4.4	4.6	(13.8)	(2.6)
	4.4	4.6	(44.2)	(30.6)

There are further significant tax losses carried forward by certain subsidiaries which will be available for offset against future profits in the subsidiaries concerned.

21 Called up share capital

	1997 £m	1996 £m
Authorised		
1,098,000,000 ordinary shares of 25 pence (1996 - 1,098,000,000)	274.5	274.5
150,688,800 unclassified shares of 25 pence (1996 - 150,688,800)	37.7	37.7
83,655,600 9.15% net convertible cumulative redeemable preference shares of 25 pence (1996 - 83,655,600 9.40% gross shares)	20.9	20.9
83,655,600 9.15% net cumulative redeemable preference shares of 25 pence (1996 - 83,655,600 9.40% gross shares)	20.9	20.9
1 deferred director share of 25 pence	-	-
	354.0	354.0
Allotted, called up and fully paid		
1,096,523,614 ordinary shares of 25 pence (1995 - 1,096,523,614)	274.1	274.1
83,655,600 9.15% net convertible cumulative redeemable preference shares of 25 pence (1996 - 83,655,600 9.40% gross shares)	20.9	20.9
83,655,600 9.15% net cumulative redeemable preference shares of 25 pence (1996 - 83,655,600 9.40% gross shares)	20.9	20.9
	315.9	315.9

On 18 December 1997, both classes of preference shares were redesignated as 9.15% net shares following changes in UK tax legislation. These shares must be redeemed by the company on 1 July 2002 in the event that the company's ordinary shares have not been admitted to listing on a recognised stock exchange by that time. If the ordinary shares are listed before this time, sufficient of the convertible preference shares may, at the option of the holder, be converted at the flotation price to ordinary shares equivalent to 5% of the total ordinary shares then in issue, within seven days of the admission to listing. The redeemable preference shares, together with those convertible preference shares which are not subject to conversion to ordinary shares, will be redeemed seven days after admission to listing. The redeemable preference shares and, where appropriate, the convertible preference shares, will be redeemed at a premium of 75 pence per 25 pence share.

Each class of preference share carries the right, pari passu with the other and with any other preference shares created in accordance with the articles, but in priority to holders of any other classes of shares, to the payment of dividends and, on a winding up, to repayment of capital. The holders of the preference shares are not entitled to any further right of participation in the assets of the company. Preference shareholders are not entitled to vote at any general meeting save where the preference dividend is six months or more in arrears or a resolution is to be proposed affecting the rights of the preference shares, to wind up the company or to sell the undertaking of the company.

Notes to the financial statements

21 Called up share capital (continued)

At the year end the following options over ordinary shares were outstanding under employee share option schemes approved by the Inland Revenue.

Number of shares under option	Option price (pence per share)	Period of option
1,220,000	100	January 1997 - January 2004
395,000	100	June 1997 - June 2004
2,744,700	100	July 1999 - December 1999
670,000	100	January 1998 - January 2005
350,000	100	May 2000 - May 2007
6,850,000	50	April 1997 - April 2007
400,000	50	September 1997 - September

The options are exercisable only if the ordinary shares are listed.

22 Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Company			
At 1 January 1997	233.9	13.2	199.1
Retained profit for the year	-	-	1.4
At 31 December 1997	233.9	13.2	200.5
Group			
At 1 January 1997	233.9	13.2	(281.7)
Loss for the year	-	-	(3.4)
Goodwill (Note 23)	-	-	(9.7)
Exchange movements on hedging transactions	-	-	14.9
Other exchange movements	-	-	(23.8)
At 31 December 1997	233.9	13.2	(303.7)

23 Goodwill

Goodwill arising in the year is as follows:

	1997 £m	1996 £m
Acquisitions		
- purchase of minority interest in ICL Technology Holding (Pty) Limited (South Africa)	(5.4)	-
- purchase of minority interest in Post Software International partnership (United States)	-	(5.5)
- other acquisitions	(4.3)	(4.3)
	(9.7)	(9.8)
Goodwill in respect of discontinued operations, previously written off to reserves	-	29.8
	(9.7)	20.0

Cumulative goodwill written off in the consolidated accounts of ICL PLC is £267.6 million (1996 - £257.9 million).

Expenditure during the year on the acquisition of shares in subsidiary undertakings amounted to £13.3m. The fair value of net assets acquired was equal to their book value of £3.6m giving rise to goodwill of £9.7m.

24 Contingent liabilities

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Guarantees issued to third parties	21.3	55.8	43.2	50.2
Other contingencies	1.8	3.1	-	-
	23.1	58.9	43.2	50.2

The contingent liabilities arise in the normal course of business and no material losses are expected to be incurred. The majority of the guarantees issued to third parties by the company are in respect of bank borrowings by subsidiary companies.

The group has commitments in respect of forward exchange contracts entered into in the normal course of business.

The group is involved in actual or threatened litigation but, having regard to legal advice received and provision made in the financial statements, it is not expected that the outcome of these claims will have any material effect on the financial position of the group.

No assets have been pledged as security in respect of any of the above liabilities.

Notes to the financial statements**25 Pension commitments**

The majority of the group's UK employees are members of the ICL Group Pension Plan (the "ICL Plan"). The ICL Plan funds are administered by a trustee and are independent of the group's finances. The ICL Plan is a defined benefit scheme.

The pension cost relating to the ICL Plan has been assessed in accordance with the advice of an independent professionally qualified actuary, using the projected unit method. For this purpose, a formal actuarial valuation was carried out as at 5 April 1997 which took into account restrictions announced in the July 1997 United Kingdom budget on the ability of pension funds to reclaim tax credits. The term, the average annual average annual return on investments would be 3.0% higher than average pay increases, 4.25% higher than dividend growth and 5.5% higher than average pension increases.

At the date of the valuation, the market value of the assets of the ICL Plan was £987.9 million and the actuarial value of the assets was sufficient to cover 114% of the actuarial value of the liabilities. The surplus is being amortised over the average remaining service lives of the employees.

Most group companies overseas have retirement plans, the form and benefits of which vary with conditions and practices in the countries concerned. In the case of defined benefit schemes, where funds are subject to periodic actuarial valuations, payments are made on the basis of these valuations.

The total amounts charged to profit and loss account were £5.3 million (1996 - £8.6 million) in respect of the ICL Plan and £17.8 million (1996 - £15.4 million) in respect of all other plans. A creditor of £1.8 million (1996 - a debtor of £1.3 million) has been recognised in the financial statements, representing the excess of pension cost over amounts paid into the Plan.

26 Leasing commitments

	Land and buildings		Other		Total	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Commitments under non-cancellable operating leases - Group						
The annual rentals payable under operating leases are as follows:						
Expiring						
- within one year	5.7	9.1	12.5	13.6	18.2	22.7
- between one and five years	17.2	12.3	25.6	26.1	42.8	38.4
- thereafter	31.6	31.8	0.0	-	31.6	31.8
	<u>54.5</u>	<u>53.2</u>	<u>38.1</u>	<u>39.7</u>	<u>92.6</u>	<u>92.9</u>
					1997	1996
Charge to profit and loss account for operating leases					£m	£m
- Plant and machinery					41.3	46.4
- other					55.0	62.1
					<u>96.3</u>	<u>108.5</u>

Notes to the financial statements**27 Ultimate holding company**

The ultimate holding company is Fujitsu Limited, a company incorporated in Japan. A copy of its 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.

28 Related parties**Related party disclosures**

At 31 December 1997 Fujitsu Limited, which is the company's controlling entity and ultimate holding company, held 90.1% of the voting shares of ICL PLC.

In accordance with Financial Reporting Standard 8 on related party disclosures ("FRS 8"), no disclosure is made of transactions and balances with:

- ICL PLC subsidiaries and investee companies which are consolidated;
- Fujitsu Limited and its subsidiaries;
- Fujitsu Limited investee companies;
- Former ICL subsidiaries which were sold within the Fujitsu group during the year.

There are no Fujitsu group related parties who do not qualify as Fujitsu subsidiaries or investees with whom ICL PLC and its subsidiaries and investee companies have traded. No FRS 8 disclosures are therefore required in this respect.

Certain related party disclosures are shown throughout the notes to the financial statements as follows:

- | | |
|---|---------|
| - Directors' remuneration | Note 12 |
| - Investment in associated undertakings | Note 15 |
| - Activities and percentage ownership of associates | Page xx |
| - Income from other fixed asset investments | Note 5 |

Related party transactions**Camelot Group plc**

International Computers Limited ("ICL"), a wholly owned subsidiary of ICL PLC, holds a 10% interest in Camelot Group plc ("Camelot"). During the year ICL received a cash dividend, inclusive of tax credits, of £4,375,000 from Camelot (1996 - £2,361,000).

ICL Sorbus UK Limited, a wholly owned subsidiary of ICL PLC, provided computer facilities management services to Camelot amounting to £6,309,000 (1996 - £10,700,000), of which £75,000 (1996 - £82,000) was owing at the end of the year.

ICL South Africa Pension Fund

International Computers (South Africa) (Pty) Limited occupies a building as leaseholder which the ICL South Africa Pension Fund has a right to acquire at market value at a future date.

Finnish Pension Funds

ICL Data OY has outstanding loans from its pension funds of £24,934,000 in accordance with normal Finnish practice, on which it pays interest of 5.5%.

Occupation of Leasehold Flat

Mr H Watanabe, a director of the company, occupies a flat of which the company is leaseholder. The cost of this accommodation is borne by a third party.