ITNET UK Limited

Report and Accounts

for the year ended 31 December 2001

**ITNET UK Limited**

**Contents of the Accounts**

**for the year ended 31 December 2001**

**ITNET UK Limited**

**Company information**

**for the year ended 31 December 2001**

| | |
|---|---|
| **Directors:** | B P Blow<br>R J Watts<br>R F Taylor<br>T F Carroll<br>C K Gollings |
| **Secretary:** | A J Foster |
| **Registered office:** | Laburnum House<br>Laburnum Road<br>Bournville<br>Birmingham<br>B30 2BD |
| **Registered number:** | 189075 |
| **Auditors:** | PricewaterhouseCoopers<br>Temple Court<br>35 Bull Street<br>Birmingham<br>B4 6JT |

**ITNET UK Limited**

**Report of the Directors**
**for the year ended 31 December 2001**

The Directors are pleased to submit their Report and audited Accounts for the year ended 31 December 2001.

**Principal activity and development of the business**
The principal activity of the Company is the provision of IT applications, business process services and e-business solutions to businesses in both commercial and public sectors. On 30 June 2001, the trade and assets of Technosys Limited were transferred into ITNET UK Limited. This has been accounted for as an acquisition, details of which are given in Note 25 to the Accounts.

The business has continued to develop satisfactorily during the year and no significant changes are planned for the future.

**Results and dividends**
The profit on ordinary activities for the financial year, after taxation, was £6,937,000 (2000: Loss £2,232,000).
The Directors have recommended that a final dividend of £3,000,000 is paid (2000: £nil).

**Fixed assets**
Details of the changes in tangible fixed assets are given in Note 11 to the Accounts.

**Directors**
The names of the directors who held office during the year to the date of this report are as follows:

| | |
|---|---|
| B P Blow | |
| R J Watts | |
| R Taylor | |
| P J Williamson | resigned 28 February 2001 |
| T F Carroll | appointed 31 January 2001 |
| C K Gollings | appointed 31 January 2001 |

Secretary
A J Foster

***Directors' interests***
All Directors are Directors of the parent undertaking, ITNET plc. Accordingly their interest in the share capital of Group Companies is shown in that Company's accounts.

At no time during the year has any Director been materially interested in any contract with the company which was significant in relation to its business.

**Directors' and Officers' liability insurance**
The Company has maintained insurance to cover Directors' and Officers' liability.

**Charitable and political donations**
The total of charitable donations made by the Company during the year amounted to £nil (2000: £181). No political donations were made by the Company.

**Disabled persons**
The Company always carefully considers any application for employment by disabled persons. In the event of any employee becoming disabled, the Company explores all options to retain the individual within the business and to provide appropriate work wherever possible. Appropriate training is offered where necessary to enable disabled people to move into new roles. The Company's training, development and promotion policies provide equal opportunities for minority groups, including the disabled.

**ITNET UK Limited**

**Report of the Directors (continued)**
**for the year ended 31 December 2001**

**Employee involvement**
The policy of informing and consulting with employees has continued by means of regular team briefs and meetings, and employees are encouraged to present their views and suggestions in respect of the Company's performance.

***Supplier payment policy***
It is the Company's practice to agree credit terms with all suppliers and to pay invoices in line with these agreed terms. The number of days purchases included in trade creditors at the balance sheet date for the Company was 45 days (2000: 41 days).

**Post balance sheet events**
No circumstances have arisen or events occurred since the balance sheet date in respect of matters which would require adjustment or disclosure in the accounts.

***Auditors***
A resolution to re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to fix their remuneration will be placed before the forthcoming Annual General Meeting of the Company.

**Statement of Directors' responsibilities**
Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing those accounts, 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 accounts;
- Prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the accounts, and that the accounts have been prepared on a going concern basis.

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 accounts 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 of fraud and other irregularities.

Andrew J Foster

By order of the Board
A J Foster
Company Secretary
19 February 2002

**ITNET UK Limited**

**Report of the Auditors to the Shareholders of ITNET UK Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

**Respective responsibilities of Directors and Auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

**Basis of audit 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 view the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Temple Court
35 Bull Street
Birmingham
B4 6JT

19 February 2002

**ITNET UK Ltd**
**Profit and loss account**
**For the year ended 31 December 2001**

| | Notes | Before Goodwill Amortisation £'000 | Goodwill Amortisation £'000 | 2001 Total £'000 | Before Goodwill Amortisation £'000 | Goodwill Amortisation £'000 | 2000 Total £'000 |
|---|---|---|---|---|---|---|---|
| **Turnover** | 2 | 164,707 | - | 164,707 | 147,549 | - | 147,549 |
| Cost of sales | | (135,391) | (1,043) | (136,434) | (132,937) | (684) | (133,621) |
| Gross profit | | 29,316 | (1,043) | 28,273 | 14,612 | (684) | 13,928 |
| Other operating expenses | 3 | (17,350) | - | (17,350) | (17,040) | - | (17,040) |
| **Operating profit/(loss)** | | 11,966 | (1,043) | 10,923 | (2,428) | (684) | (3,112) |
| Interest receivable | 4 | 180 | - | 180 | 262 | - | 262 |
| Interest payable | 5 | (507) | - | (507) | (729) | - | (729) |
| **Profit/(loss) on ordinary activities before taxation** | 6 | 11,639 | (1,043) | 10,596 | (2,895) | (684) | (3,579) |
| Tax on profit/(loss) on ordinary activities | 8 | (3,659) | - | (3,659) | 1,347 | - | 1,347 |
| **Profit/(loss) on ordinary activities after taxation** | | 7,980 | (1,043) | 6,937 | (1,548) | (684) | (2,232) |
| Dividends paid and proposed | 9 | (3,000) | - | (3,000) | - | - | - |
| **Retained profit/(loss) for the financial year** | | 4,980 | (1,043) | 3,937 | (1,548) | (684) | (2,232) |

All activities are continuing operations.

On 30 June 2001, the trade and assets of Technosys Limited were transferred into ITNET UK Limited. It is not possible to determine the post-acquisition results of Technosys Limited to the end of the current year as the business has been fully absorbed into existing ITNET businesses.

There is no material difference between the profit and loss account and the results on an unmodified historical cost basis for the Company.

There are no other recognised gains or losses other than those included in the Profit and loss account above.

**ITNET UK Ltd**
**Balance Sheet**
**As at 31 December 2001**

| | Notes | 2001 £'000 | 2000 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 10 | 1,107 | 1,850 |
| Tangible assets | 11 | 8,712 | 13,716 |
| | | 9,819 | 15,566 |
| **Current assets** | | | |
| *Stocks and work in progress* | 12 | 1,319 | 341 |
| Debtors | 13 | 32,138 | 26,843 |
| Cash at bank and in hand | | 9,878 | 15,379 |
| | | 43,335 | 42,563 |
| **Creditors** | | | |
| Amounts falling due within one year | 14 | (45,127) | (48,003) |
| **Net current liabilities** | | (1,792) | (5,440) |
| ***Total assets less current liabilities*** | | 8,027 | 10,126 |
| **Creditors** | | | |
| Amounts falling due after more than one year | 15 | (1,053) | (6,989) |
| **Provisions for liabilities and charges** | 17 | (500) | (600) |
| | | 6,474 | 2,537 |
| **Capital and Reserves** | | | |
| Called up share capital - equity | 18 | 4 | 4 |
| Capital redemption reserve | 19 | 6,000 | 6,000 |
| Profit and loss account | 19 | 470 | (3,467) |
| Total shareholders' funds | 20 | 6,474 | 2,537 |

Signed on behalf of the Board

B P Blow
Chief Executive

R F Taylor
Group Finance Director

Approved by the Board on 19 February 2002
The accompanying notes are an integral part of this balance sheet

**ITNET UK Limited**
**Notes to accounts**
**For the year ended 31 December 2001**

**1. Accounting policies**

The principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year are as follows:

**(a) Basis of accounting**

The accounts are prepared under the historical cost convention and modified in accordance with applicable accounting standards.

***(b) Research and development expenditure***

Research and development expenditure is written off in the financial year in which it is incurred.

**(c) Tangible fixed assets**

*Fixed assets are shown at cost.*

Depreciation is provided on the original cost or subsequent valuation of assets on a straight-line basis over their estimated useful lives.

The principal rates used are as follows:

| | |
|---|---|
| Computer equipment | 2-5 years (50%-20% per annum) |
| Plant | 8 years (12.5% per annum) |
| Office furniture and fittings | 8 years (12.5% per annum) |
| Motor vehicles | 4 years (25% per annum) |

In specific cases, higher depreciation rates are used, (for example, for equipment subject to technological changes or equipment with a high obsolescence factor). In addition, some items of furniture are written off in the year of addition.

**(d) Stocks and work-in-progress**

*Stocks and work-in progress are stated at the lower of cost and net realisable value.*

**(e) Profit recognition on contracting activities**

Costs on contracts are taken as incurred. Revenues are generally recognised as the service is performed. Revenues on maintenance contracts are taken evenly over the duration of the contract.

For the implementation of software solutions, the full software license revenue will be recognised on delivery of the software licence from the third party vendor only when all significant risks and rewards of ownership transfer immediately to the customer and that payment is guaranteed. The costs of customisation of the software licence will be charged to work in progress and revenues and costs are only recognised on customer acceptance of the completed project and provided that payment is virtually certain.

Where ITNET provides financing to a customer, the financing revenue will be taken evenly over the term of the outsourcing contract.

**(f) Taxation**

Corporation tax payable is provided on taxable profits at the current rate.

**(g) Pension costs**

*The costs of providing pensions and other termination benefits are charged to the profit and loss account on a* consistent basis over the expected service lives of the employees. Such costs are calculated by reference to actuarial valuations, and variations from such regular costs are spread over the remaining service lives of the current employees.

**(h) Fixed assets held under leases**

Where assets are financed by leasing agreements which give rights approximating to ownership ("finance leases") the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases.

Depreciation on leased assets is charged to the profit and loss account on the same basis as shown in 1(c) above.

Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account.

All other leases are operating leases and the relevant annual rentals are charged wholly to the profit and loss account.

**ITNET UK Limited**
**Notes to accounts**
**For the year ended 31 December 2001**

1. **Accounting policies** continued

**(i) Turnover**

Turnover comprises the invoiced value of sales, excluding value added tax and trade discounts, of goods and services provided in the normal course of business.

**(j) Goodwill**

Goodwill arises when the fair value of consideration paid to acquire subsidiary undertakings and businesses exceeds the fair value attributed to the net assets acquired. Prior to the publication of FRS10, goodwill was written off to reserves and would be written back through the profit and loss account on any subsequent disposal of the entity it related to. Goodwill arising from acquisitions completed on or after 1 January 1999 is capitalised and amortised on a straight line basis over a period of not more than 20 years.

**(k) Deferred Taxation**

Deferred taxation is provided for on all timing differences in accordance with FRS19, 'Accounting for Deferred Taxation'. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

**(l) Foreign currencies**

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of translation. Any exchange differences arising are dealt with through the profit and loss account.

**(m) Pensions**

The Company has adopted the disclosure provisions of FRS 17, 'Retirement Benefits'.

2. **Segmental reporting**

| | Turnover | |
|---|---|---|
| | 2001 | 2000 |
| | £'000 | £'000 |
| **Business analysis** | | |
| Commercial | 87,373 | 75,842 |
| Public | 77,334 | 71,707 |
| | 164,707 | 147,549 |

3. **Other operating expenses**

| | 2001 | 2000 |
|---|---|---|
| | £'000 | £'000 |
| Distribution costs including marketing | 8,213 | 9,481 |
| Administration expenses | 9,137 | 7,559 |
| | 17,350 | 17,040 |

4. **Interest receivable**

| | 2001 | 2000 |
|---|---|---|
| | £'000 | £'000 |
| Bank interest | 180 | 262 |

5. **Interest payable and similar charges**

Interest is payable on bank and other loans as follows:

| | 2001 | 2000 |
|---|---|---|
| | £'000 | £'000 |
| Interest on bank loans | 164 | 229 |
| Interest on finance leases | 343 | 500 |
| | 507 | 729 |

## 6. Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Depreciation of tangible fixed assets: | | |
| - owned | 3,880 | 3,471 |
| - assets under finance leases | 1,638 | 2,442 |
| Amortisation of goodwill | 1,043 | 684 |
| Profit/(loss) on disposal of tangible fixed assets | 20 | (2) |
| Operating lease rentals: | | |
| - properties | 2,338 | 2,369 |
| - plant & machinery | 1,923 | 3,541 |
| - Motor vehicles | 587 | - |
| Gift to QUEST | - | 3,210 |
| Auditors remuneration: | | |
| - audit | 50 | 47 |
| - non audit | 101 | 118 |
| - other services | 2 | 37 |
| Staff costs (see note 7) | 81,342 | 76,976 |

## 7. Staff costs

**(a) Employee costs during the year amounted to:**

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Wages and salaries | 70,919 | 66,951 |
| Social security costs | 6,363 | 6,075 |
| Other pension costs (see note 22) | 4,060 | 3,950 |
| | 81,342 | 76,976 |

**(b) The average weekly number of employees including Directors during the year was as follows:**

| | 2001 | 2000 |
|---|---|---|
| IT related services | 2,164 | 2,131 |
| Central administration | 93 | 79 |
| | 2,257 | 2,210 |

**(c) Directors' emoluments**

Total Directors' remuneration for the year amounted to £1,155,000 (2000: £859,000). Amounts paid to a defined benefit scheme totalled £53,000 (2000: £65,000).

Excluding pension contributions the emoluments of the highest paid Director were £367,000 (2000: £235,000). Pension contributions were £30,000 (2000: £34,000).

The number of Directors to whom retirement benefits are accruing under defined contribution schemes is 5 (2000: 4).

## 8. Tax on profit/(loss) on ordinary activities

| The tax charge/(credit) is based on the profit/(loss) for the year and comprises: | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Current year tax charge at 30% (2000: 30%) | 1,338 | - |
| Prior year tax credit | (96) | - |
| Current year deferred tax charge/(credit) | 2,414 | (734) |
| Prior year deferred tax charge/(credit) | 3 | (613) |
| | 3,659 | (1,347) |

The movement on deferred taxation is set out in note 16.

| Reconciliation of current year tax charge: | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Expected tax charge/(credit) at 30% of profit/(loss) before tax | 3,179 | (1,074) |
| Non-deductible items - goodwill | 502 | 205 |
| Non-deductible items - sundry permanent items | 70 | 135 |
| Timing differences | 228 | (21) |
| Trading losses (brought forward from prior period)/carried forward to future period | (2,641) | 755 |
| | 1,338 | - |

## 9. Dividends

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Proposed final ordinary dividend | 3,000 | - |

## 10. Intangible fixed assets

| | £'000 |
|---|---|
| **Cost** | |
| At 1 January 2001 | 2,534 |
| Additions | 300 |
| **As at 31 December 2001** | 2,834 |
| **Amortisation** | |
| At 1 January 2001 | 684 |
| Charge | 1,043 |
| **As at 31 December 2001** | 1,727 |
| **Net book value** | |
| **At 31 December 2001** | 1,107 |
| At 31 December 2000 | 1,850 |

Following completion of the determination of the fair value of EASAMS debtors acquired, the goodwill in respect of this acquisition has increased by £300,000. This has resulted in the fair value of EASAMS assets acquired reducing to £221,000 and the related goodwill increasing to £2,834,000. This is being amortised over three years.

## 11. Tangible fixed assets

| | Plant and Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2001 | 47,717 | 3,953 | 51,670 |
| Additions | 2,969 | 53 | 3,022 |
| Disposals | - | (3,962) | (3,962) |
| Reclassification | (391) | - | (391) |
| **As at 31 December 2001** | 50,295 | 44 | 50,339 |
| **Depreciation** | | | |
| At 1 January 2001 | 36,161 | 1,793 | 37,954 |
| Charge | 5,437 | 81 | 5,518 |
| Disposals | - | (1,845) | (1,845) |
| **As at 31 December 2001** | 41,598 | 29 | 41,627 |
| **Net book value** | | | |
| **At 31 December 2001** | 8,697 | 15 | 8,712 |
| At 31 December 2000 | 11,556 | 2,160 | 13,716 |

Assets held under finance leases within plant and machinery and motor vehicles included above are at cost of £8,736,102 (2000: £12,068,102) and accumulated depreciation of £5,347,619 (2000: £5,385,782).

## 12. Stocks and work-in-progress

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Work-in-progress | 1,093 | 215 |
| Consumables | 226 | 126 |
| | 1,319 | 341 |

**13. Debtors**

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Trade debtors | 16,628 | 18,390 |
| Deferred tax (see note 16) | 1,319 | 3,691 |
| Prepayments and accrued income | 3,318 | 846 |
| Amounts owed by parent undertaking | 10,873 | 3,190 |
| Amounts owed by other group undertakings | - | 726 |
| | 32,138 | 26,843 |

Included within Deferred tax are amounts falling due after more than one year of £1,360,000 (2000: £1,161,000).
The fair value of debtors is not materially different to the book values stated above.

**14. Creditors - Amounts falling due within one year**

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Trade creditors | 9,514 | 7,903 |
| UK corporation tax | 3,136 | 2,338 |
| Other taxation and social security | 5,787 | 6,554 |
| Amounts due under finance leases | 2,103 | 2,892 |
| Accruals and deferred income | 23,211 | 26,989 |
| Amounts owed to fellow subsidiary undertaking | 1,376 | 1,327 |
| | 45,127 | 48,003 |

The fair value of creditors is not materially different to the book values stated above.

**15. Creditors - Amounts falling due after more than one year**

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Bank loans | - | 3,308 |
| Finance leases | 1,053 | 3,681 |
| | 1,053 | 6,989 |

| Falling due: | Finance Leases £'000 | 2001 Total £'000 | Bank Loans £'000 | Finance Leases £'000 | 2000 Total £'000 |
|---|---|---|---|---|---|
| Between one and two years | 931 | 931 | - | 2,306 | 2,306 |
| Between two and five years | 122 | 122 | 3,308 | 1,375 | 4,683 |
| | 1,053 | 1,053 | 3,308 | 3,681 | 6,989 |

The amount repayable by instalments, any of which are repayable after the five year period amounts to £nil (2000: £nil).
The fair value of creditors is not materially different to the book values stated above.

**16. Deferred taxation**

Deferred taxation asset at 30% (2000: 30%) is as follows:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Accelerated capital allowances | 1,209 | 1,121 |
| Short term timing differences | 110 | 40 |
| Losses | - | 2,530 |
| | 1,319 | 3,691 |

The movement on the deferred taxation asset is as follows:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Provision at start of year | 3,691 | 2,344 |
| Deferred taxation (charge)/credit in profit and loss account for year (note 8) | (2,417) | 1,347 |
| Deferred taxation assets transferred from Technosys Limited | 45 | - |
| Provision at end of year | 1,319 | 3,691 |

The deferred taxation assets were acquired as part of the transfer of the associated trade and assets of Technosys Limited to ITNET UK Limited on 30 June 2001.

**17. Provisions for liabilities and charges**

| | £'000 |
|---|---|
| At 1 January 2001 | 600 |
| Utilised | (600) |
| Profit and loss account | 500 |
| **As at 31 December 2001** | 500 |

The provision is in respect of the London Borough of Hackney to cover estimated legal and other costs in connection with the cessation of the contract.

**18. Called-up share capital**

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Equity: | | |
| Authorised,allotted,called up and fully paid: | | |
| 6,000,000 Ordinary shares of $0.001 each | 4 | 4 |

The ordinary shares of $0.001 each were issued in November 1995 as a bonus issue.

**19. Reserves**

Of the total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

| | Profit & Loss Account £'000 | Capital Redemption Reserve £'000 |
|---|---|---|
| At 1 January 2001 | (3,467) | 6,000 |
| Profit for the year | 3,937 | - |
| **At 31 December 2001** | 470 | 6,000 |

**20. Reconciliation of movements in shareholders' funds**

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Profit/(loss) after tax | 6,937 | (2,232) |
| Dividends paid & proposed | (3,000) | - |
| Net addition to shareholders' funds | 3,937 | (2,232) |
| Opening shareholders' funds | 2,537 | 4,769 |
| Closing shareholders' funds | 6,474 | 2,537 |

**21. Guarantees and other financial commitments**

**(a) Capital commitments**

At the end of the year, capital commitments were:

| | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Contracted but not provided for | 312 | 1,363 |

**(b) Commitments under operating leases**

During the next year, the Company is contracted to make payments under operating leases which mature as follows:

| | 2001 Property £'000 | 2000 Property £'000 | 2001 Plant and Computer Equipment £'000 | 2000 Plant and Computer Equipment £'000 |
|---|---|---|---|---|
| Within one year | 316 | 399 | 274 | 673 |
| Between two and five years | 683 | 864 | 502 | 624 |
| After more than five years | 1,321 | 980 | - | - |
| | 2,320 | 2,243 | 776 | 1,297 |

**21. Guarantees and other financial commitments** continued

**(c) Charges**

The undertaking, property and assets of the Group are subject to fixed and floating charges in favour of ITNET plc bankers.

**(d) Contingent liabilities**

Professional indemnity insurance has been taken to cover possible disputes in accordance with industry standards which is considered adequate for the needs of the business.

The Group has a number of performance bonds which arose in the ordinary course of business and which have not been provided for in these accounts since no actual liability is expected to arise.

**22. Pension arrangements**

*Defined benefits*

ITNET operates a defined benefit pension scheme covering eligible employees. The assets of the Scheme are held in a separate trustee administered fund. The pension cost is charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Company. The pension charge has been assessed in accordance with the advice of an independent qualified actuary in compliance with accounting standard SSAP 24.

The most recent formal actuarial valuation was carried out as at 1 April 1999 using the Projected Unit Method. The principal assumptions used for the calculations were that future investment returns prior to retirement would be 6.5% per annum, 5% per annum after retirement and salary increases of 4.75% per annum (Commercial Section) and 4.25% per annum (Local Authority Section).

The market value of the Scheme's assets was £25,800,000, at the date of valuation, and was sufficient to cover 100% of the benefits that had accrued to members allowing for expected future increases in earnings.

The pension charge for the year is £2,639,000 (2000:£2,814,000). The Company contribution rate was 13% of pensionable earnings for the Local Authority Section, 14% of pensionable earnings for the Commercial Section and 2.5% of pensionable earnings for the Supplementary Scheme. The contribution rates will continue in 2002.

*Defined contributions*

ITNET also operates a number of defined contribution pension schemes for eligible employees. The assets of these schemes are held in separate trustee administered funds. Amounts payable for these arrangements are charged to the profit and loss account as they occur in line with the provisions of the scheme.

The total pension charge for the year is £1,421,000 (2000:£1,136,000).

*FRS 17 Valuation*

Financial Reporting Standard 17 ("Retirement benefits") comes into effect for accounting periods ending on or after 22 June 2001. Adoption of the new standard is being phased in over three years and in this first year the Company is required to discose the difference between the market value of the pension Scheme assets and the present value of the Scheme Liabilities as at 31 December 2001.

Based on an actuarial valuation, consistent with the methods prescribed in the standard, a surplus on the pension scheme has been identified as follows:

## 22. Pension arrangements continued

***UK Scheme***

| | |
|---|---|
| Date of most recent actuarial valuation: | 1 April 1999 |

Main assumptions:

| | |
|---|---|
| Rate of increase in salaries | 4.00% p.a |
| Rate of increase of pensions in payment, where applicable | 2.25% p.a |
| Rate used to discount Scheme liabilities | 6.00% p.a |
| Inflation assumption | 2.50% p.a |

| Fair value and expected return on assets: | Long-term expected rate of return 2001 % | **Fair value at 31 December 2001 £'000** |
|---|---|---|
| Equities | 8.00%p.a. | 26,402 |
| Bonds | 6.00%p.a. | 7,403 |
| | | |
| Total market value of Scheme assets | | 33,805 |
| Present value of Scheme liabilities | | 32,600 |
| Surplus in the Scheme | | 1,205 |
| Related deferred tax liability | | (362) |
| Net pension asset | | 843 |

The rate of salary increases assumed in the FRS 17 valuation reflects the current view of salary inflation.

| *Net assets* | 2001 £'000 |
|---|---|
| Net assets excluding pension asset | 7,049 |
| Pension asset | 843 |
| Net assets including pension asset | 7,892 |

| *Reserves* | 2001 £'000 |
|---|---|
| Profit and loss reserves excluding pension asset | 1,045 |
| Pension asset | 843 |
| Profit and loss reserves including pension asset | 1,888 |

## 23. Ultimate parent undertaking

The Company's ultimate parent undertaking is ITNET plc, a company registered in England which prepares consolidated accounts. These accounts are available from Laburnum House, Laburnum Road, Bournville, Birmingham, B30 2BD.

## 24. Related parties

There are no related party disclosures to disclose in this year's accounts, in accordance with FRS8, 'Related Party Transactions'.

## 25. Acquisition of Technosys Limited

| | Book values acquired £'000 | Accounting policy alignments £'000 | Fair value acquired £'000 |
|---|---|---|---|
| Fixed assets | 117 | - | 117 |
| Debtors - deferred taxation asset | 45 | - | 45 |
| Other debtors | 1,151 | - | 1,151 |
| Creditors | (1,903) | - | (1,903) |
| Net liabilities acquired | (590) | - | (590) |
| Goodwill | | | - |
| Consideration - intercompany | | | (590) |