189075

ITNET UK Limited

Registered number: 189075

Report and Accounts

for the year ended 31 December 2002

ITNET UK Limited

Contents of the Accounts

for the year ended 31 December 2002

ITNET UK Limited

Company information

for the year ended 31 December 2002

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

Report of the Directors
for the year ended 31 December 2002

The Directors are pleased to submit their Report and audited Accounts for the year ended 31 December 2002.

Review of business and future developments
The principal activity of the Company is the provision of IT applications, business process services and e-business solutions to businesses and other organisations in the Commercial and Public sector markets. 2002 was a good year for the Company. Despite difficult trading conditions in the Commercial sector, the Company delivered excellent underlying trading profit growth and improved margins. Pressure from Central Government continues to drive Local Authorities towards modernisation and this is reflected in the performance of the Public sector business. The Company took full advantage of the opportunities that arose and the forward sales pipeline looks promising. The Commercial sector benefited from the focus on key sectors of transportation, finance and services.

Results and dividends
The profit on ordinary activities for the financial year, after taxation, was £9,928,000 (2001: £6,937,000).
The Directors have recommended that a final dividend of £6,800,000 is paid (2001: £3,000,000). An interim dividend of £3,500,000 was paid during the year (2001: £nil).

Fixed assets
Details of the changes in tangible fixed assets are given in Note 12 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
T F Carroll
C K Gollings

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 (2001: £nil). 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.

Supplier payment practice
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 was 48 days (2001: 45 days).

ITNET UK Limited

Report of the Directors (continued)
for the year ended 31 December 2002

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

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
Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership ("LLP") from 1 January 2003, PricewaterhouseCoopers resigned on 31 March 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to re-appoint PricewaterhouseCoopers LLP 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.

The Directors are also responsible for the maintenance and integrity of the website. UK legislation governing the preparation and dissemination of financial statements may differ from that in other jurisdictions.

By order of the Board

R F Taylor
Group Finance Director
17th September 2003

Independent Auditors' Report to the members 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 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. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

17th September 2003

ITNET UK Limited
Profit and loss account
For the year ended 31 December 2002

	Notes	Before Goodwill Amortisation £'000	Goodwill Amortisation £'000	2002 Total £'000	Before Goodwill Amortisation £'000	Goodwill Amortisation £'000	As restated 2001 Total £'000
Turnover	2	166,479	-	166,479	164,707	-	164,707
Cost of sales		(136,914)	-	(136,914)	(136,209)	-	(136,209)
Gross Profit		29,565	-	29,565	28,498	-	28,498
Other operating expenses before goodwill amortisation		(16,118)	-	(16,118)	(16,532)	-	(16,532)
Goodwill amortisation		-	(1,661)	(1,661)	-	(1,043)	(1,043)
Total operating expenses	3	(16,118)	(1,661)	(17,779)	(16,532)	(1,043)	(17,575)
Operating profit		13,447	(1,661)	11,786	11,966	(1,043)	10,923
Income from shares in group undertakings	4	2,602	-	2,602	-	-	-
Interest receivable	5	141	-	141	180	-	180
Interest payable	6	(522)	-	(522)	(507)	-	(507)
Profit on ordinary activities before taxation	7	15,668	(1,661)	14,007	11,639	(1,043)	10,596
Tax on profit on ordinary activities	9	(4,079)	-	(4,079)	(3,659)	-	(3,659)
Profit on ordinary activities after taxation		11,589	(1,661)	9,928	7,980	(1,043)	6,937
Dividends paid and proposed	10	(10,300)	-	(10,300)	(3,000)	-	(3,000)
Retained (loss)/profit for the financial year	22	1,289	(1,661)	(372)	4,980	(1,043)	3,937

All activities are continuing operations.

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 and losses other than those included in the profit and loss account above.

The accompanying notes are an integral part of this profit and loss account.

ITNET UK Limited
Balance Sheet
As at 31 December 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	11	396	1,107
Tangible assets	12	7,674	8,712
Investments	13	14,687	-
		22,757	9,819
Current assets			
Stocks and work in progress	14	1,122	1,319
Debtors	15	29,649	32,138
Cash at bank and in hand		11,781	9,878
		42,552	43,335
Creditors			
Amounts falling due within one year	16	(58,585)	(45,127)
Net current liabilities		(16,033)	(1,792)
Total assets less current liabilities		6,724	8,027
Creditors			
Amounts falling due after more than one year	17	(122)	(1,053)
Provisions for liabilities and charges	19	(500)	(500)
Net assets		6,102	6,474
Capital and Reserves			
Called up share capital - equity	20	4	4
Capital redemption reserve	21	6,000	6,000
Profit and loss account	21	98	470
Total shareholders' funds	22	6,102	6,474

Signed on behalf of the Board

RF Taylor

R F Taylor
Group Finance Director

Approved by the Board on 17th September 2003
The accompanying notes are an integral part of this balance sheet

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. As the Company is a wholly owned subsidiary of a parent undertaking incorporated in the European Community, advantage has been taken of S228 of the Companies Act 1985 not to prepare group accounts.

(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 less accumulated depreciation.

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.

(d) Stocks and work-in-progress

Stocks and work-in-progress are stated at the lower 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 licence revenue is 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 are 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. Revenues recognised in advance of billings to customers are shown in accrued income.

(f) Taxation

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

(g) Pension costs

In respect of the defined benefit pension schemes, 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. Contributions to defined contribution pension schemes are charged to the profit and loss account when they fall due.

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

1. Accounting policies (continued)

(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. The interest element is calculated using a constant rate of charge over the life of the lease on the capital balance outstanding.

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

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

(j) Investments
Investments are stated at cost less any permanent diminution in value.

(k) Impairment of fixed assets
The carrying values of tangible and intangible fixed assets are reviewed for impairment where there is an indication that the asset might be impaired. Any provision for impairment is charged against profit in the year concerned.

(l) 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 relates to. Goodwill arising from acquisitions completed on or after 1 January 1998 is capitalised and amortised on a straight line basis over a period of not more than 20 years.

(m) Deferred Taxation
Provision is made for deferred taxation in so far as the company has the right to pay less tax or an obligation to pay more tax in the future as a result of transactions or events that have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that their recoverability is regarded as probable. Deferred tax assets and liabilities are not discounted.

(n) Change to presentation of accounts
The presentation of the accounts has been revised to show goodwill amortisation in Total operating expenses rather than in Cost of sales. The revised presentation has been adopted as the Directors feel it is more appropriate because it brings presentation in line with industry standards. Comparatives have also been restated to take account of this change. In addition comparative Other operating expenses have been restated to include only administration costs not attributable to business operations. The impact of the changes is as follows:

	2002 £'000	2001 £'000
Cost of sales before change in presentation	138,575	136,434
Goodwill amortisation	(1,661)	(1,043)
Costs attributable to business operations	-	818
Cost of sales as reported/restated	136,914	136,209

	2002 £'000	2001 £'000
Other operating expenses before change in presentation	16,118	17,350
Goodwill amortisation	1,661	1,043
Costs attributable to business operations	-	(818)
Total operating expenses as reported/restated	17,779	17,575

2. Segmental reporting

	Turnover 2002 £'000	2001 £'000
Business analysis		
Commercial	75,997	87,373
Public	90,482	77,334
	166,479	164,707

In the opinion of the Directors, the disclosure of segmental information relating to the business categories of profitability and net assets would be seriously prejudicial to the interests of the Group and has therefore not been provided.

3. Total operating expenses

	2002 £'000	2001 £'000
Administration expenses	17,779	17,575

Total operating expenses for 2001 have been restated to include goodwill amortisation and administration costs not directly attributable to business operations. See note 1(n).

4. Income from shares in group undertakings

	2002 £'000	2001 £'000
Dividends receivable	2,602	-

The dividends receivable are from The French Thornton Partnership Limited which was purchased from ITNET plc on 30th June 2002. See note 13.

5. Interest receivable

	2002 £'000	2001 £'000
Bank interest	141	180

6. Interest payable and similar charges

Interest is payable on bank and other loans as follows:

	2002 £'000	2001 £'000
Interest on bank loans and overdrafts	-	90
Interest on loan notes	53	74
Other interest payable to group companies	308	-
Interest on finance leases	161	343
	522	507

7. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2002 £'000	2001 £'000
Depreciation of tangible fixed assets:		
- owned	3,407	3,619
- assets under finance leases	1,795	1,899
Amortisation of goodwill	1,661	1,043
Profit on disposal of tangible fixed assets	1	20
Operating lease rentals:		
- properties	2,861	2,338
- plant and machinery	389	1,923
- motor vehicles	493	587
Auditors' remuneration:		
- audit	55	50
- non audit	102	101
- other services	2	2
Staff costs (see note 8)	82,488	81,342

8. Staff costs

(a) Employee costs during the year amounted to:

	2002 £'000	2001 £'000
Wages and salaries	72,426	70,919
Social security costs	6,253	6,363
Other pension costs (see note 24)	3,809	4,060
	82,488	81,342

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

	2002	2001
IT related services	2,118	2,164
Central administration	105	93
	2,223	2,257

(c) Directors' Emoluments

Total Directors' remuneration for the year amounted to £1,186,000 (2001: £1,155,000). Amounts paid to a defined contribution scheme totalled £56,000 (2001: £53,000).

Excluding pension contributions the emoluments of the highest paid director were £369,000 (2001: £367,000). Pension contributions to a defined contribution scheme were £40,000 (2001: £30,000). At the year-end the highest paid director has an accrued pension of £16,000 (2001: £14,000).

The number of Directors to whom retirement benefits are accruing under defined benefit scheme is 5 (2001: 5). In addition a supplementary defined contribution scheme operated for 3 directors (2001: 3).

9. Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:	2002 £'000	2001 £'000
UK Corporation tax on profits for the year	4,079	1,338
Adjustments in respect of previous years	(70)	(96)
Total current tax	4,009	1,242
Deferred tax:		
- Origination and reversal of timing differences	(3)	2,414
- Adjustments in respect of previous years	73	3
Total deferred tax	70	2,417
Total taxation	4,079	3,659

The movement on deferred taxation is set out in note 18.

Reconciliation of current year tax charge:	2002 £'000	2001 £'000
Expected tax charge at 30% of profit before tax	4,202	3,179
Non-deductible items - principally goodwill amortisation	498	502
Non-taxable items - dividends	(781)	-
Non-deductible items - sundry permanent items	157	70
Timing differences	3	228
Trading losses brought forward from prior period	-	(2,641)
Adjustments in respect of previous years	(70)	(96)
	4,009	1,242

10. Dividends

	2002 £'000	2001 £'000
Interim dividend paid of 58.33p per share (2001: nil)	3,500	-
Proposed final ordinary dividend of 113.33p per share (2001: 50.00p)	6,800	3,000
	10,300	3,000

11. Intangible fixed assets

	£'000
Cost	
At 1 January 2002	2,834
Additions	950
As at 31 December 2002	3,784
Amortisation	
At 1 January 2002	1,727
Charge	1,661
As at 31 December 2002	3,388
Net book value	
At 31 December 2002	396
At 31 December 2001	1,107

There has been an increase in the goodwill attributable to EASAMS of £950,000 due to EASAMS revenues triggering a further earn-out payment. This has resulted in an additional £697,000 of amortisation in 2002 with the remaining balance to be amortised in 2003.

12. Tangible fixed assets

	Plant and Equipment £'000	Motor Vehicles £'000	Total £'000
Cost			
At 1 January 2002	50,295	44	50,339
Additions	4,171	-	4,171
Disposals	(28,712)	(37)	(28,749)
As at 31 December 2002	25,754	7	25,761
Depreciation			
At 1 January 2002	41,598	29	41,627
Charge	5,198	4	5,202
Disposals	(28,712)	(30)	(28,742)
As at 31 December 2002	18,084	3	18,087
Net book value			
At 31 December 2002	7,670	4	7,674
At 31 December 2001	8,697	15	8,712

Assets held under finance leases within plant and equipment included above are at cost of £8,736,102 (2001: £8,736,102) and accumulated depreciation of £7,553,679 (2001: £5,759,020).

13. Fixed assets - investments

	2002 £'000	2001 £'000
Cost of investment	14,687	-

On 30th June 2002 the Company acquired 100% of the ordinary share capital of The French Thornton Partnership Limited, a company registered in England, for £14,687,000 from its parent company ITNET plc. The principal activity of French Thornton is consultancy.

14. Stocks and work in progress

	2002 £'000	2001 £'000
Work in progress	796	1,093
Consumables	326	226
	1,122	1,319

15. Debtors

	2002 £'000	2001 £'000
Trade debtors	16,685	16,628
Deferred tax (see note 18)	1,249	1,319
Prepayments and accrued income	10,426	3,318
Amounts owed by parent undertaking	-	10,873
Amounts owed by other group undertakings	1,289	-
	29,649	32,138

Included within Deferred tax are amounts falling due after more than one year of £1,249,000 (2001: £1,319,000).

16. Creditors - Amounts falling due within one year

	2002 £'000	2001 £'000
Trade creditors	10,430	9,514
UK corporation tax	2,354	3,136
Other taxation and social security	5,602	5,787
Amounts due under finance leases	926	2,103
Accruals and deferred income	25,664	23,211
Amounts owed to parent undertaking	13,609	-
Amounts owed to fellow subsidiary undertaking	-	1,376
	58,585	45,127

17. Creditors - Amounts falling due after more than one year

	2002 £'000	2001 £'000
Finance leases	122	1,053

Falling due by instalments:	Finance Leases £'000	2002 Total £'000	Finance Leases £'000	2001 Total £'000
Between one and two years	122	122	931	931
Between two and five years	-	-	122	122
	122	122	1,053	1,053

18. Deferred taxation

Deferred taxation asset at 30% (2001: 30%) is as follows:

	2002 £'000	2001 £'000
Accelerated capital allowances	1,146	1,209
Short term timing differences	103	110
	1,249	1,319

The movement on the deferred taxation asset is as follows:

	2002 £'000	2001 £'000
Provision at start of year	1,319	3,691
Deferred taxation charge in profit and loss account for year (note 9)	(70)	(2,417)
Deferred taxation assets transferred from Technosys Limited	-	45
Provision at end of year	1,249	1,319

In prior year, 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.

ITNET UK Limited
Notes to the accounts
For the year ended 31 December 2002

19. Provisions for liabilities and charges

	£'000
At 1 January 2002 and as at 31 December 2002	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.

20. Called-up share capital

	2002 £'000	2001 £'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.

21. Reserves

	Profit & Loss Account £'000	Capital Redemption Reserve £'000
At 1 January 2002	470	6,000
Loss for the year	(372)	-
At 31 December 2002	98	6,000

22. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Profit after tax	9,928	6,937
Dividends paid and proposed	(10,300)	(3,000)
Net (reduction)/addition to shareholders' funds	(372)	3,937
Opening shareholders' funds	6,474	2,537
Closing shareholders' funds	6,102	6,474

23. Guarantees and other financial commitments

(a) Capital commitments

At the end of the year, capital commitments were:

	2002 £'000	2001 £'000
Contracted but not provided for	1,078	312

(b) Commitments under operating leases

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

	2002 Property £'000	2001 Property £'000	2002 Plant and Computer Equipment £'000	2001 Plant and Computer Equipment £'000	2002 Motor Vehicles £'000	2001 Motor Vehicles £'000
Within one year	346	316	41	274	33	-
Between two and five years	978	683	256	502	193	493
After more than five years	725	1,321	-	-	-	-
	2,049	2,320	297	776	226	493

23. 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.

24. 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 £2,339,000 (2001:£2,639,000). 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 2003.

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 £1,470,000 (2001: £1,421,000).

FRS 17 valuation
The latest actuarial valuation of the Scheme has been updated by a qualified actuary as at 31 December 2002 on a set of assumptions consistent with those required under FRS 17. The principal assumptions used by the actuary were:

	31 December 2002	31 December 2001
Discount rate	5.75%	6.00%
Rate of increase in pensionable salaries	3.75%	4.00%
Inflation assumption	2.25%	2.50%
Rate of increase in pensions in payment (where applicable)	2.25%	2.25%

FRS 17 'Retirement benefits' requires that any surplus or deficit on a pension scheme (measured by reference to the fair values of the pension scheme assets and liabilities) should be recognised in the balance sheet, with the profit and loss account reflecting any changes in those fair values year on year. The method of calculating the surplus or deficit will often lead to large fluctuations in the pension balance year on year. Market values of the pension scheme assets, which are largely invested in equities, will fluctuate due to the volatility of the market, as will the present value of the pension scheme liabilities due to the application of changing market discount rates.

24. Pension arrangements (continued)

The balance sheet disclosure as at 31 December 2002 is set out below:

	31 December 2002		31 December 2001	
	Long-term expected rate of return	Value	Long-term expected rate of return	Value
	%	£'000	%	£'000
Equities	8.00%	24,130	8.00%	26,402
Bonds	5.25%	5,396	6.00%	7,403
Cash	4.00%	1,185	-	-
Total market value of assets		30,711		33,805
Present value of liabilities		(38,358)		(32,600)
(Deficit)/surplus in the Scheme		(7,647)		1,205
Related deferred tax asset/(liability)		2,294		(362)
Net pension (liability)/asset		(5,353)		843

Net assets	2002 £'000	2001 £'000
Net assets excluding pension (liability)/asset	6,102	6,474
Pension (liability)/asset	(5,353)	843
Net assets including pension (liability)/asset	749	7,317

Reserves	2002 £'000	2001 £'000
Profit and loss reserves excluding pension (liability)/asset	98	470
Pension (liability)/asset	(5,353)	843
Profit and loss reserves including pension (liability)/asset	(5,255)	1,313

An analysis of the amounts which would have been charged to operating profit is as follows:

	2002 £'000
Current service cost	2,680
Past service cost	-
Total operating charge	2,680

An analysis of the amounts which would have been credited to other financing income is as follows:

	2002 £'000
Expected return on Pension Scheme assets	2,624
Interest on Pension Scheme liabilities	(2,055)
Other financing income	569

An analysis of the amount which would have been recognised in the statement of total recognised gains and losses is as follows:

	2002 £'000
Actual return less expected return on pension scheme assets	(9,080)
Experience gains and losses arising on Pension Scheme liabilities	824
Changes in assumptions underlying the present value of the Scheme liabilities	(1,126)
Actuarial loss recognised in the statement of recognised gains and losses	(9,382)

24. Pension arrangements (continued)

An analysis of the movement in surplus over the period is as follows:

	2002 £'000
Surplus in the Scheme at the beginning of the year	1,206
Current service cost	(2,680)
Contributions paid	2,640
Other financing income	569
Actuarial losses	(9,382)
Deficit in the Scheme at the end of the year	(7,647)

A history of experience gains and losses over the period would have been as follows:

	2002 £'000
Difference between the expected and actual return on Scheme assets:	
Amount	(9,080)
Percentage of Scheme assets	(30)%
Experience gains and losses on Scheme liabilities:	
Amount	824
Percentage of present value of Scheme liabilities	2%
Total amount recognised in statement of total recognised gains and losses:	
Amount	(9,382)
Percentage of present value of Scheme liabilities	(24)%

25. Ultimate parent undertaking and controlling party

The Company's ultimate parent undertaking and controlling party 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.

26. Related parties

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