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ITNET plc

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

Results and dividends

The profit on ordinary activities of the Group for the financial year, after taxation, was £6,612,000 (2000: loss of £129,000). A final ordinary dividend payment of 2.42p per share (2000: 2.2p) will be recommended by the Board at the Annual General Meeting scheduled for 13 May 2002. An interim dividend of 1.1p per share (2000: 1.1p per share) was paid on 9 October 2001. The final dividend will, if approved, be paid on 24 May 2002 to all shareholders on the register at 22 March 2002. The Directors intend to offer a scrip dividend alternative to shareholders, and full details of this are contained in a scrip dividend circular, which has been posted to all shareholders who have not previously submitted a scrip dividend mandate.

Review of business and future developments

The principal activity of the Group is the provision of IT, applications, Business Process and e-services to businesses and organisations in both the Commercial and Public Sector markets. A more detailed review of the year and details regarding the Group's plans for future development can be found in the Chief Executive's statement on pages 08 and 09.

Share capital

Details of changes in share capital during 2001 can be found in Note 20 of the Accounts.

Acquisitions

No acquisitions were made during the year.

Substantial shareholdings

As of 19 February 2002 the Group had been notified of the following interests in 3% or more of its issued share capital:

	Number of shares	% Holding
Henderson Global Investors	13,884,415	19.39
Deutsche Asset Mgmt UK	4,330,838	6.05
3i Group Asset Mgmt	4,264,207	5.96
Schroder Investment Mgmt	4,011,181	5.60
JP Morgan Fleming Asset Mgmt	3,372,898	4.71
Legal & General Investment Mgmt	2,668,651	3.73
B P Blow	2,502,000	3.49
Co-operative Insurance Society	2,350,000	3.28

Share Option Schemes

Two Share Option Schemes are currently operated: a Savings-related Share Option Scheme and an Executive Share Option Scheme.

Under the Savings-related Share Option (Sharesave) Scheme all employees who have been employed by the Group for at least one month can be offered options to acquire Ordinary Shares at a discount of up to 20% of market value out of the proceeds of an SAYE contract entered into at the time of grant. The total number of Sharesave Options granted to date is 2,479,108 and the details of each Option grant are set out below:

Month/Year of grant	Number of options granted	Grant price £
September 1998	720,328	3.10
October 1999	263,680	3.77
November 2000	745,440	2.07
October 2001	749,660	1.48

Under the Executive Share Option Scheme employees (including full-time Executive Directors) may be granted Options to acquire Ordinary Shares at the market value at time of grant. The Remuneration Committee specifies the performance conditions which must be satisfied before Options can be exercised. Options over a total of 2,071,995 Ordinary Shares have been granted to date. All Options are exercisable between three and 10 years from the date of grant at the price at which the Options were granted.

The details of the Executive Share Options granted by the Group are specified below:

Month/Year of grant	Number of options granted	Grant price £
March 1999	528,931	4.03
October 1999	86,000	4.85
April 2000	423,271	7.34
October 2000	115,955	2.53
March 2001	674,998	2.22
March 2001	7,334	2.32
October 2001	235,506	2.22

Directors and their interests

The names of the Directors at the year-end are shown on page 34 and details of their interests, either directly or indirectly, in the share capital of the Company are shown in the Remuneration report.

S B Birkenhead, R J Watts and B P Blow retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

At no time during the period has any Director been materially interested in any contract with the Group which was significant in relation to its business (other than S A Ricketts as a Director of companies serviced by ITNET UK Limited).

Charitable and political donations

The total of charitable donations made by the Group during the year amounted to £Nil (2000: £181). No political donations have been made by the Group (2000: £Nil).

Our values

ITNET takes its social, ethical and environmental responsibilities seriously and recognises that such factors are increasingly relevant to financial performance. ITNET recognises that its long-term financial success is linked to the proper management of these factors in accordance with its mission and values. In the Company's relationships with all stakeholders, ITNET is committed to maintaining high standards of business practice and staff are required to comply with a Code of Business Ethics. The Company also recognises the importance of managing impacts on the environment, treating all stakeholders fairly and consistently, considering the indirect ethical consequences of decisions and adhering to laws and regulations. The Company has a number of outreach initiatives including mentoring for school headteachers and the provision of volunteer readers to work with children in schools. Staff are also involved in a range of fundraising activities for charity.

The workplace: ITNET is a socially responsible employer and recognises that employees are critical to its business success.

ITNET has a Group Human Resources Director who sits on the Group's Operational Executive. HR management within the Group is aligned to a strategic framework approved by the Board encompassing recruitment, development, reward, communication and diversity.

ITNET equips its managers to assess, manage and develop their teams. A variety of management training is provided whilst specific development needs are identified through managers' own performance reviews.

Performance reviews are conducted formally for all employees at least once per year. Individuals' training and development needs are identified at the performance review to supplement training needs that ITNET has identified as core for specific groups of employees.

Formal policies are in place for key areas of employment, for example equal opportunities, sexual and racial harassment, recruitment, discipline, grievance, internet and e-mail use, health and safety and are brought to the attention of employees via induction, briefings, training and the Company's intranet.

ITNET is a competitive employer in terms of compensation and benefits with performance-based bonus and Share Option Schemes in place to reward contribution and link incentives to the performance of business objectives. These factors have contributed to the company's ability to retain staff.

Employee involvement: The policy of informing and consulting with employees is maintained by means of regular team briefs and meetings, and employees are encouraged to present their views and suggestions in respect of the Group's performance. The Company's intranet provides fast and effective communication to staff wherever they are based. All employees with at least one month's service are invited to participate in the Group's Sharesave Scheme.

Disabled persons: The Group always carefully considers any application for employment by disabled persons. In the event of any employee becoming disabled, the Group 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 Group's training, development and promotion policies provide equal opportunities for minority groups, including the disabled.

Environmental statement: The principal activity of the Group is the provision of IT, applications, Business Process and e-services. There is no manufacturing or related distribution activity carried out by the Group. As such the Group believes its business has a relatively low-level environmental impact.

Nevertheless, the Group takes seriously its environmental responsibilities and has an environmental policy in place, which is communicated to employees via the Group's intranet and e-mail system. One of the main Board Directors has specific responsibility for managing the environmental impact of the Group's activities, and setting and communicating around the Group appropriate environmental targets and standards. In addition, the Group has specific environmental management systems in parts of the organisation where it is a customer-specified requirement.

The Group believes that its approach to environmental risks is appropriate and proportionate to the relatively low level of environmental impact caused by its business. The Group's environmental policy is, however, kept under review and the environmental impacts of the Group's IT infrastructure is a specific area for monthly reporting under the Turnbull risk assessment and reporting framework used within the Group.

Supplier payment practice

It is the Group'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 Group was 45 days (2000: 41 days). The Company had no trade creditors.

Post balance sheet events

No circumstances have arisen 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.

Combined Code

The Board is committed to high standards of Corporate Governance throughout the Group's operations. The Group complies with the principles of good governance as set out in the Combined Code annexed to the Listing Rules of the Financial Services Authority, except in relation to cash bonuses payable to Directors, part of which is pensionable (details are given in the Remuneration report). This report explains how the Board applies such principles of good governance in the Group's operations.

Throughout the year ended 31 December 2001 the Group has complied with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority.

Internal control

In addition to the Directors' responsibilities described in this Directors' report, Directors have a specific responsibility for ensuring the Group maintains an adequate system of financial control. In compliance with Principle D.2.1 of the Combined Code, the Board is responsible for continually monitoring and reviewing the effectiveness of the Group's system of internal financial control as described in this Report. The Board's monitoring covers all controls, including financial, operational, compliance controls and risk management. These internal controls are designed to provide reasonable but not absolute assurance that the assets of the Group are safeguarded, that proper accounting records are maintained and that reliable financial information is produced.

There is a comprehensive planning, budgeting and forecasting process utilised by the Group's Divisional Executive Boards and also by the Board, which involves detailed monthly monitoring of actual performance against budget. This includes the review of timely monthly management information detailing financial areas such as divisional and customer profitability and balance sheet and cash flow information. The Board also meets to review business development, strategic options and shareholder relations, and annually agrees a Long Range Plan for the three succeeding financial years.

The Group's current organisational structure is built around its Public Sector and Commercial businesses with well-defined lines of responsibility and appropriate levels of delegation. Authority levels are well documented and circulated and compliance regularly reviewed by the Group's Executive Boards. Both the Board and the Audit Committee carry out their own checks and reviews of the adequacy of internal controls in regular meetings throughout the year.

The Board has a well-defined risk management structure and all material business cases are authorised by the relevant main Board Director.

Risk management

The Board has applied Principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks that the Group faces and which accords with the Turnbull guidelines. The process includes review by the Board of a Quarterly Risk Management Report produced by the Group's Executive Board, which reports on current material risks identified by the divisions and the prioritisation of these risks proposed by the Executive Directors. The Board regularly reviews this process, which has been in place during the year ended 31 December 2001 and up to the date of approval of this report: the process was most recently reviewed in February 2002 by the Audit Committee. External validation of the adequacy of the Group's risk management processes is considered to be important: this has been achieved by an external report on the Company's overall approach to risk management (including Turnbull compliance) in early 2001. An externally facilitated risk management workshop is to be held in May 2002. The Group's Auditors interviewed the Executive Directors during the year as part of a risk-based approach to the 2001 audit.

The Group's risk management process is based principally on reviewing at each Board meeting summarised reports from the Group's Executive Boards to consider whether material risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied and/or indicate a need for more extensive monitoring. The system of allocating responsibility for key risks within the business assists the executive team in ensuring proper ownership of any control failures and in allocating any actions needed to reduce the risk of a repetition. The Audit Committee assists the Board in discharging its review responsibilities, in particular by ensuring that the right processes and accountabilities are in place to ensure regular and appropriate reporting of risk. The Committee also checks that these processes are scrutinised and from time to time updated, to ensure that they provide executive management with necessary and timely information on the risks faced by the Group.

Internal audit

An Internal Auditor provides advice and assistance to the Audit Committee in discharging its responsibility to monitor the adequacy of the Group's internal control systems. The Internal Auditor therefore seeks approval from the Audit Committee on audit scope, policy and administration and on the prioritisation of these activities. The Audit Committee will from time to time re-prioritise planned internal audits and introduce new audits, so as to align this activity as closely as possible to the delivery of the Company's financial plans and strategic objectives. The Internal Auditor attends Audit Committee meetings to report on significant recommendations and activities of the internal audit function.

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 Group 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; and
- Prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group 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 Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. These duties are principally discharged through the Audit Committee of the Board.

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.

Board of Directors
The Board has five Executive Directors, including the Chief Executive. It also has four Non-executive Directors, including the Chairman, three of whom are independent. The Chairman of the Board is Lord Crickhowell. The Chief Executive is Bridget Blow. S B Birkenhead is the senior independent Non-executive Director as required by the Listing Rules.

Formal scheduled Board meetings are held at least ten times each year. The Board has a formal schedule of matters reserved for its decision. All the Directors have access to the Company Secretary for advice and assistance, and in the furtherance of their duties are entitled to take independent professional advice, if necessary, at the Company's expense. The Company Secretary has responsibility for ensuring that all Board procedures are followed and all Board meetings are minuted. The Board has established a number of committees to assist in the discharge of its duties. Details of these are set out below.

Key details of Directors' service contracts are given on pages 40 to 43 in the Remuneration report. All Directors must submit themselves for re-election at regular three yearly intervals in accordance with the Articles of Association. Directors appointed since the last Annual General Meeting are required to submit themselves for re-election at the next following Annual General Meeting.

Audit Committee
The Audit Committee is formally constituted with written terms of reference to reflect all the Committee's responsibilities under the Listing Rules, including those arising from the Turnbull guidelines. The Committee is chaired by S B Birkenhead, who is an Independent Non-executive Director and the other members of the Committee are Lord Crickhowell and F J Plowden who are also Independent Non-executives, and S A Ricketts. The meetings are regularly attended by the Chief Executive and the Group Finance Director. The Committee meets at least twice a year and receives reports from the Group's Auditors. The Committee reviews the interim and final accounts prior to approval by the full Board. At least once a year, the Committee meets with the Auditors without the presence of Executive Directors. The Committee also considers a wide range of financial issues including the effectiveness of the Group's deployment and monitoring of internal controls and advises the Board on the appointment, remuneration and Terms of Reference for the Auditors. It also reviews the Terms of Reference for the Group's internal audit function and requests, receives and considers detailed reports from Internal Audit, so as to ensure the adequacy and proper prioritisation of their activities.

The Remuneration and Appointments Committee
The Remuneration and Appointments Committee is formally constituted with written Terms of Reference. The Committee is chaired by Lord Crickhowell and comprises all of the Non-executive Directors. This Committee determines the remuneration and benefits packages for Executive Directors and any changes to their service contracts as well as the remuneration of Senior Management. The Committee also approves any Share-related Bonus Schemes and performance bonus arrangements. Additionally, the Committee considers all potential new Board appointments and makes its recommendations to the Board. The Board report on remuneration is on page 40.

Training for Directors
An induction plan is prepared for new Non-executive and Executive Directors ensuring that new Directors meet appropriate members of the management team and have an immediate opportunity to discuss issues pertinent to the Group's success. All Directors are encouraged to take further training in areas that can benefit both the Group and the individual.

Going concern
The Directors have reviewed the Group's budget and cash flows for 2002 and the Group's Long Range Plan and are satisfied that it is appropriate to prepare the accounts on a going concern basis.

Shareholder relations
Throughout the year, the Group has maintained regular dialogue with institutional shareholders. Representatives of the Board offer to meet with all principal institutional investors at least twice a year following the announcement of the Group's interim and final results and at other times at the investors' request. The Group's Annual report and accounts, Half-year report and other Stock Exchange announcements are published on the Group's website: www.itnetplc.com

Notice of the Group's Annual General Meeting is circulated to all shareholders at least 20 working days before such meeting. The provisional date for this year's meeting is 13 May 2002. At the Annual General Meeting shareholders are given the opportunity to present questions on general business matters and the Chairman of each of the Audit and the Remuneration and Appointments Committees are available to answer questions. Details of proxy voting are declared by the Chairman after a vote on a show of hands.

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

Remuneration policy

The Company's policy is to provide remuneration packages that will retain talented people in the business, enable the recruitment of appropriately skilled and experienced newcomers and are seen to be competitive in the markets in which the Company operates.

A targeted comparator group has been defined based on advice from our recruitment consultants, Inbucon-Meis. The policy for each element of the remuneration packages has been defined against this comparator group.

Against the comparator group ITNET will pay salaries at the median level. It will have an upper quartile bonus potential for high achievement. Median to upper quartile annual share incentive awards will be provided for Executive Directors. Benefits in kind and pensions will be provided in line with the comparator group.

Executive Directors' remuneration

The remuneration of the Executive Directors is determined by the Remuneration and Appointments Committee. Market research is carried out by independent remuneration consultants (Inbucon-Meis) who also provide remuneration recommendations. Salaries are adjusted at 1 January each year.

The Bonus Scheme for the Year 2001 was based on a mix of measures which supported the enhancement of shareholder value. These were defined as revenue growth, earnings per share and economic profit. Each of these measures had equal weighting under the Scheme although the conditions of the Scheme ensured that the bonus was only paid out on the revenue and economic profit targets if a comparable or higher earnings per share target had been achieved.

Under the conditions of the Bonus Scheme bonuses are pensionable up to 20% of salary because performance-based rewards represent a significant proportion of Executive remuneration.

Measures for bonus payments are reviewed annually by the Remuneration Committee. The measures from the Year 2001 bonus have been retained for the Year 2002 bonus.

For 2002, the maximum bonus payable will be 100% of salary for exceptional performance.

The remuneration of the Executive Directors in 2001 is shown in Table 01.

Non-executive Directors' remuneration

The remuneration of the Non-executive Directors is determined by the Board based upon recommendations from the Chairman and the Chief Executive following advice from Inbucon-Meis (or, in the case of the remuneration of the Chairman, based on recommendations from the Senior Independent Non-executive Director and the Chief Executive). The remuneration of the Non-executive Directors is reviewed against the same comparator group as that of the Executive Directors.

The Non-executive Directors are not eligible for performance related bonuses and do not participate in any ITNET pensions arrangements.

Remuneration and Appointments Committee

Lord Crickhowell chairs the Remuneration and Appointments Committee. It meets at least twice a year.

In 2001 it consisted of the four Non-executive Directors.

Employment contracts

Two of the Executive Directors have rolling 12 month contracts subject to a minimum of three months' notice by the individual Director. One has a rolling 12 month contract subject to a minimum of six months' notice by the Director. Two have rolling six month contracts subject to a minimum of six months' notice by the individual Director.

Directors' pensions

All Executive Directors are members of the ITNET Final Salary (Defined Benefit) Pension Scheme (Commercial Section). Under this Scheme Directors will receive retirement benefits which are based on one sixtieth of final earning for each year of pensionable service.

Four of the Executive Directors are limited to the Government's earnings cap which is reviewed each year and currently stands at £95,400.

One Director is not subject to the earnings cap as his pension membership commenced before 1989.

In addition a supplementary Pension Scheme operated during the year on a defined contribution basis for three Directors designed to provide a supplement to the Final Salary Scheme.

All Directors contribute 5% of pensionable salary to the ITNET Final Salary Pension Scheme (Commercial Section). Excess earnings over the Government cap have been covered for pension purposes by:

- A Funded Unapproved Retirement Benefit Scheme (FURBS) for one Director
- A salary supplement for two Directors.

Table 02 highlights the details of Pensions benefits earned in 2001.

Other benefits

Executive Directors receive certain other benefits principally related to the provision of company cars and health care arrangements.

Directors' interests
The interests of the Directors at the year-end in the shares of the Company are detailed in Table 03.

Share Option Schemes
The company operates Executive Share Option Schemes for Executive Directors and other senior Group Executives. Such Options have not been granted at a discount to the relevant middle market price at the time of grant.

During the year no Directors exercised options under the Executive Schemes.

Options for Executive Directors and Senior Managers are granted on the basis of performance measures linked to Group performance.

Executive Share Options granted prior to 2001 required an average 30% year on year growth in earnings per share for exercise at the 100% level. No Options can be exercised unless earnings per share growth is greater than an average level of inflation plus 4% over the three year period.

In 2001, Share Options were awarded to Directors which required a 10% average year on year growth in earnings per share for exercise at the 100% level. On maturity, no Options can be exercised unless the Company has reached an average growth in earnings per share of inflation plus 2% over the period since the award.

The above stated performance conditions operate on a graduated basis, so as to allow increasing proportions of the Share Options to be exercised for performance between the baseline level and the 100% exercise level.

The Share Options held by the Directors at the year-end are detailed in Table 04.

Options granted to staff other than Executive Directors and Senior Managers may be granted on the basis of different criteria, which may include Group performance, relevant subsidiary performance or a mixture of these.

QUEST
The grant of Sharesave Options in 2001 was made through the ITNET QUEST.

All employees of Group Companies, including Executive Directors of the Company, are potential beneficiaries of the QUEST.

Crickhowell

Lord Crickhowell
Chairman of the Remuneration Committee

Table 01 – Current remuneration

Executive Directors' remuneration:	Salary & fees £'000	Benefits £'000	Annual bonus £'000	Total 2001 £'000	Total 2000 £'000
B P Blow	236	10	121	367	235
R J Watts	143	15	69	227	153
P J Williamson⁺	18	1	–	19	155
R F Taylor	165	12	75	252	127
C Gollings*	87	9	49	145	–
T Carroll*	87	9	49	145	–
Total	**736**	**56**	**363**	**1,155**	**670**
Non-executive Directors' remuneration:					
Lord Crickhowell (Chairman)	65	–	–	65	60
S A Ricketts	20	–	–	20	20
S B Birkenhead	25	–	–	25	25
F Plowden*	23	–	–	23	–
Total	**133**	**–**	**–**	**133**	**105**
Total emoluments to Directors	**869**	**56**	**363**	**1,288**	**775**

⁺Left ITNET on 28 February 2001
*Appointed to the Board on 31 January 2001

Table 02 – Directors' pensions

Pension benefits earned by Executive Directors

	Age at year-end	Company contributions to money purchase schemes £'000	Directors' contributions £'000	Increase in accrued pension £'000	Increase in cash equivalent transfer value £'000	Total pension accrual at 31 December 2001 £'000	Accrued cash as at 31 December 2001 £'000	Increase in accrued cash sum £'000
B P Blow	52	30	5	1	12	14	–	–
R J Watts	52	8	5	1	10	16	–	–
P J Williamson⁺	42	1	1	–	(3)	10	–	–
R F Taylor	50	14	5	2	14	3	–	–
C Gollings*	40	–	4	3	15	11	–	–
T Carroll*	46	–	4	1	4	40	64	2

Notes:

01 The increase in accrued pension and accrued cash sum during the year excludes any increase for inflation.

02 The Company contributions for R F Taylor include a back payment in respect of the previous year.

03 The transfer value has been calculated in accordance with actuarial guidance GN11 less Directors' contributions.

04 The pension entitlement shown is that which would be paid annually on retirement based on service to the year-end or date of leaving if earlier.

05 Members of the Scheme have the option to pay additional voluntary contributions. Neither the contributions nor resulting benefits are included in the above table.

06 The increase in accrued pension for P J Williamson is negative as the accrued pension at his date of leaving is less than the accrued pension as at 31 December 2000 increased in line with inflation.

07 C Gollings and T Carroll were appointed Directors with effect from 31 January 2001. The increase in transfer value less Directors' contributions over the full year are £16,363 and £4,776 respectively. The Directors' contributions were £4,524 and £4,523 respectively. T Carroll is a member of the Supplementary Pension Scheme.

Table 03 – Shares in which a Director is interested

Directors' interests, including interests of connected persons, in ITNET plc Ordinary Shares of 10p each were:

	Ordinary Shares of 10p at 1 January 2001/ date of appointment Number	Ordinary Shares of 10p at 31 December 2001 Number
B P Blow	2,482,000	2,502,000
R J Watts	1,859,400	1,879,400
R F Taylor	–	–
C Gollings*	71,437	71,437
T Carroll*	125,460	125,460
Lord Crickhowell	24,286	24,286
S B Birkenhead	10,000	25,000
F Plowden*	–	9,850

*Appointed to the Board on 31 January 2001

Table 04 – Share Options granted

Executive Share Options granted	22 March 1999 Number	7 April 2000 Number	Previously held Number	1 March 2001 Number	30 March 2001 Number	25 October 2001 Number	Granted in 2001 Number	Total Number
B P Blow	45,905	30,654	76,559	32,500	–	68,851	101,351	177,910
R J Watts	29,090	18,392	47,482	32,500	–	28,311	60,811	108,293
R F Taylor	–	57,221	57,221	135,000	5,000	–	140,000	197,221
C Gollings*	8,561	5,654	14,215	32,500	–	10,293	42,793	57,008
T Carroll*	8,447	5,279	13,726	32,500	–	10,293	42,793	56,519
Exercise price	£4.03	£7.34		£2.22	£2.32	£2.22		
Exercise date – from	Mar 2002	Apr 2003		Mar 2004	Mar 2004	Oct 2004		
– to	Mar 2009	Apr 2010		Mar 2011	Mar 2011	Oct 2011		

Sharesave Options granted	30 September 1998 Number	14 October 1999 Number	10 November 2000 Number	10 November 2000 Number	Previously held Number	19 October 2001 Number	Granted in 2001 Number	Total Number
B P Blow	1,567	–	–	1,010	2,577	–	–	2,577
R J Watts	–	–	580	–	580	–	–	580
R F Taylor	–	–	–	1,010	1,010	1,047	1,047	2,057
C Gollings*	1,567	537	–	1,010	3,114	1,824	1,824	4,938
T Carroll*	1,567	–	580	–	2,147	–	–	2,147
Exercise price	£3.10	£3.77	£2.07	£2.07		£1.48		
Exercise date – from	Sept 2003	Oct 2004	Nov 2003	Nov 2005		Oct 2006		
– to	Mar 2004	Apr 2005	May 2004	May 2006		Apr 2007		

Notes:
01 The Executive Share Options of C Gollings and T Carroll at their dates of appointment were 14,215 and 13,726 respectively.
02 The Sharesave Options of C Gollings and T Carroll at their dates of appointment were 3,114 and 580 respectively.

The market price of ITNET plc Ordinary Shares at 31 December 2001 was £2.49. During the year the market price of the shares ranged between £1.30 and £2.95.

There have been no changes to the details of the above tables between 31 December 2001 and 19 February 2002. Changes to the tables after 19 February 2002 will be set out in the Notice of AGM.

Independent Auditors' report
to the members of ITNET plc

We have audited the financial statements which comprise the Profit and loss account, the Balance sheet, the Cash flow statement, the Statement of total recognised gains and losses and the related notes (including the additional disclosures on page 42 relating to the remuneration of Directors specified for our review by the UK Financial Services Authority) 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, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules 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, the Chairman's statement, the Chief Executive's statement, the Operational review, the Financial review and the Corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures, or its risk and control procedures.

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 affairs of the Company and the Group at 31 December 2001 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Temple Court
35 Bull Street
Birmingham B4 6JT
19 February 2002

Group 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	02	**176,446**	**–**	**176,446**	158,873	–	158,873
Cost of sales		**(145,911)**	**(2,259)**	**(148,170)**	(140,423)	(1,859)	(142,282)
Gross profit		**30,535**	**(2,259)**	**28,276**	18,450	(1,859)	16,591
Other operating expenses	03	**(17,350)**	**–**	**(17,350)**	(17,040)	–	(17,040)
Operating profit/(loss)		**13,185**	**(2,259)**	**10,926**	1,410	(1,859)	(449)
Interest receivable	04	**265**	**–**	**265**	301	–	301
Interest payable	05	**(724)**	**–**	**(724)**	(1,275)	–	(1,275)
Profit/(loss) on ordinary activities before taxation	06	**12,726**	**(2,259)**	**10,467**	436	(1,859)	(1,423)
Tax on profit/(loss) on ordinary activities	08	**(3,855)**	**–**	**(3,855)**	1,294	–	1,294
Profit/(loss) on ordinary activities after taxation		**8,871**	**(2,259)**	**6,612**	1,730	(1,859)	(129)
Dividends paid and proposed	09	**(2,499)**	**–**	**(2,499)**	(2,335)	–	(2,335)
Retained profit/(loss) for the financial year		**6,372**	**(2,259)**	**4,113**	(605)	(1,859)	(2,464)

Earnings per share (pence)							
– Before goodwill amortisation	10	**12.54**			2.46		
– Goodwill amortisation			**(3.19)**			(2.64)	
– Basic				**9.35**			(0.18)
– Fully diluted				**9.12**			(0.18)

All activities are continuing operations.
The Company profit after taxation for the financial year is £2,690,000 (2000: loss of £755,000).

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

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

Group balance sheet
as at 31 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Intangible assets	11	**23,015**	24,974
Tangible assets	12	**8,742**	13,923
Investments	13	**1,860**	1,860
		33,617	40,757
Current assets			
Stocks and work in progress	14	**1,319**	341
Debtors	15	**23,796**	26,346
Cash at bank and in hand		**12,352**	15,873
		37,467	42,560
Creditors			
Amounts falling due within one year	16	**(48,390)**	(49,455)
Net current liabilities		**(10,923)**	(6,895)
Total assets less current liabilities		**22,694**	33,862
Creditors			
Amounts falling due after more than one year	17	**(1,553)**	(17,989)
Provisions for liabilities and charges	19	**(500)**	(600)
		20,641	15,273
Capital and reserves			
Called-up share capital – equity	20	**7,160**	7,096
Shares to be issued		**3,750**	3,750
Share premium account	21	**28,673**	27,469
Profit and loss account	21	**(18,942)**	(23,055)
Shareholders' funds		**20,641**	15,260
Equity minority interests		**–**	13
		20,641	15,273

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.

p cash flow statement
e year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
et cash inflow from operating activities	23(a)	**15,184**	9,852
eturns on investments and servicing of finance	23(b)	**(388)**	(914)
axation		**(801)**	451
Capital expenditure	23(c)	**(548)**	(3,350)
		13,447	6,039
Acquisitions	23(f)	**–**	(10,371)
Equity dividends paid		**(2,243)**	(2,308)
Cash flow before management of liquid resources and financing		**11,204**	(6,640)
Financing	23(d)	**(14,725)**	8,961
(Decrease)/increase in cash equivalents		**(3,521)**	2,321

	Notes	2001 £'000	2000 £'000
Reconciliation of net cash flow to movement in net debt:			
(Decrease)/increase in cash in the year		**(3,521)**	2,321
Decrease/(increase) in debt and lease financing		**14,725**	(8,961)
New loan notes	23(e)	**(825)**	–
New finance leases		**–**	(1,877)
Change in net debt		**10,379**	(8,517)
Opening net (debt)/cash at 1 January		**(2,008)**	6,509
Net cash/(debt) at 31 December	23(e)	**8,371**	(2,008)

Parent company balance sheet
as at 31 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Investments	13	**53,326**	53,326
Current assets			
Debtors	15	**2,131**	1,993
Cash at bank and in hand		**12**	20
		2,143	2,013
Creditors			
Amounts falling due within one year	16	**(13,943)**	(4,772)
Net current liabilities		**(11,800)**	(2,759)
Total assets less current liabilities		**41,526**	50,567
Creditors			
Amounts falling due after more than one year	17	**(500)**	(11,000)
		41,026	39,567
Capital and reserves			
Called-up share capital – equity	20	**7,160**	7,096
Shares to be issued		**3,750**	3,750
Share premium account	21	**28,673**	27,469
Profit and loss account	21	**1,443**	1,252
Shareholders' funds		**41,026**	39,567

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.

01 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) Basis of consolidation

The Group accounts include the results of the parent Company and its subsidiary undertakings up to 31 December. The trading results of businesses acquired during the year are included in profit on ordinary activities from the effective date of acquisition.

(c) Research and development expenditure

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

(d) 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.

(e) Stocks and work in progress

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

(f) 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 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 revenue 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 service.

(g) Taxation

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

(h) 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.

(i) *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 01(d) 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.

01 Accounting policies continued

(j) 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.

(k) Investments
Investments are stated at cost less any provisions required to reflect impairments.

(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 1999 is capitalised and amortised on a straight line basis over a period of not more than 20 years.

The net assets of businesses acquired are incorporated in the consolidated accounts at their fair value to the Group. Fair value adjustments principally relate to adjustments necessary to bring the accounting policies of acquired businesses into line with those of ITNET plc but may also include other adjustments necessary to restate assets and liabilities at their fair values at the date of acquisition. All businesses acquired are consolidated using the acquisition method of accounting. Contingent consideration determined by reference to the future performance of acquired businesses is estimated by the Directors at each balance sheet date based on latest available forecasts. Any change to consideration is taken to goodwill.

(m) 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.

(n) 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.

(o) Pensions
The Group has adopted the disclosure provisions of FRS17, 'Retirement Benefits'.

02 Segmental reporting

Turnover	2001 £'000	2000 £'000
Business analysis		
Commercial	**90,405**	83,173
Public	**86,041**	75,700
	176,446	158,873

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

03 Other operating expenses

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

04 Interest receivable

	2001 £'000	2000 £'000
Bank interest	**265**	301

05 Interest payable and similar charges

Interest is payable on bank and other loans as follows:	2001 £'000	2000 £'000
Interest on bank loans and overdrafts	**381**	775
Interest on finance leases	**343**	500
	724	1,275

06 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:	2001 £'000	2000 £'000
Depreciation of tangible fixed assets:		
– owned	**3,816**	3,582
– assets under finance leases	**1,638**	2,442
Amortisation of goodwill	**2,259**	1,859
(Profit)/loss on disposal of tangible fixed assets	**(20)**	2
Operating lease rentals:		
– properties	**2,468**	2,369
– plant and machinery	**1,336**	3,541
– motor vehicles	**587**	–
Auditors' remuneration:		
– Audit (Parent Company £5,000, 2000: £5,000)	**55**	52
– Taxation advice and compliance	**124**	126
– Other (primarily due diligence)	**2**	29
Staff costs (see Note 07)	**88,340**	84,372

07 Staff costs

(a) Employee costs during the year amounted to:	2001 £'000	2000 £'000
Wages and salaries	**77,005**	73,785
Social security costs	**6,672**	6,404
Other pension costs (see Note 25)	**4,663**	4,183
	88,340	84,372

Details of Directors' remuneration are set out on pages 40 to 43.

(b) The average weekly number of employees including Directors during the year was as follows:	2001	2000
IT related services	**2,195**	2,283
Central administration	**93**	79
	2,288	2,362

08 Tax on profit on ordinary activities

The tax charge/(credit) is based on the profit for the year and comprises:	2001 £'000	2000 £'000
Current year tax charge at 30% (2000: 30%)	**1,486**	319
Prior year tax charge/(credit)	**116**	(205)
Current year deferred tax charge/(credit) on timing differences	**2,440**	(863)
Prior year deferred tax credit on timing differences	**(187)**	(545)
	3,855	(1,294)

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

Reconciliation of current year tax charge:	2001 £'000	2000 £'000
Expected tax charge/(credit) at 30% of profit/(loss) before tax	**3,139**	(426)
Non-deductible items (principally goodwill amortisation)	**763**	841
Timing differences	**225**	2
Benefit of QUEST	**–**	(963)
Trading losses (brought forward from prior period)/carried forward	**(2,641)**	865
	1,486	319

The tax charge will continue to be affected by non-deductible goodwill amortisation.

09 Dividends

	2001 £'000	2000 £'000
Interim dividend paid of 1.1p per share (2000: 1.1p)	**781**	774
Proposed final ordinary dividend of 2.42p (2000: 2.2p)	**1,718**	1,561
	2,499	2,335

10 Earnings per share

The calculation of earnings per share is based on an attributable profit of £6,612,000 (2000: loss £129,000) divided by 70,744,906 shares (2000: 70,334,902). The number of shares is based on the weighted average number of shares in issue during the year excluding those held by the QUEST which are treated as cancelled for earnings per share calculation purposes.

The fully diluted earnings per share is based on 72,508,015 (2000: 70,334,902) Ordinary Shares, after adjusting for the full exercise of outstanding Share Options and the shares to be issued in respect of the French Thornton earn-out.

11 Intangible fixed assets – goodwill

Group	£'000
Cost	
At 1 January 2001	27,242
Additions	300
As at 31 December 2001	**27,542**
Amortisation	
At 1 January 2001	2,268
Charge	2,259
As at 31 December 2001	**4,527**
Net book value	
At 31 December 2001	**23,015**
At 31 December 2000	24,974

The goodwill on all acquisitions is being amortised over 20 years with the exception of EASAMS where goodwill is being amortised over three years.

Following completion of the determination of the fair values 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.

12 Tangible fixed assets

Group	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 2001	48,083	3,953	52,036
Additions	2,741	53	2,794
Disposals and reclassifications	(412)	(3,962)	(4,374)
As at 31 December 2001	**50,412**	**44**	**50,456**
Depreciation			
At 1 January 2001	36,320	1,793	38,113
Charge	5,373	81	5,454
Disposals and reclassifications	(8)	(1,845)	(1,853)
As at 31 December 2001	**41,685**	**29**	**41,714**
Net book value			
At 31 December 2001	**8,727**	**15**	**8,742**
At 31 December 2000	11,763	2,160	13,923

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).

16 Creditors – amounts falling due within one year

	2001 Group £'000	2001 Company £'000	2000 Group £'000	2000 Company £'000
Loan notes – issued	**825**	**825**	–	–
Loan notes – to be issued	**500**	**500**	–	–
Trade creditors	**9,514**	**–**	8,074	–
UK corporation tax	**1,145**	**–**	549	–
Other taxation and social security	**5,966**	**–**	6,996	–
Amounts due under finance leases	**2,103**	**–**	2,892	–
Accruals and deferred income	**26,592**	**–**	29,362	–
Amounts owed to subsidiary undertaking	**–**	**10,873**	–	3,190
Dividend payable	**1,745**	**1,745**	1,582	1,582
	48,390	**13,943**	49,455	4,772

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

17 Creditors – amounts falling due after more than one year

	2001 Group £'000	2001 Company £'000	2000 Group £'000	2000 Company £'000
Bank loans	**–**	**–**	11,308	8,000
Loan notes – to be issued	**500**	**500**	3,000	3,000
Finance leases	**1,053**	**–**	3,681	–
	1,553	**500**	17,989	11,000

Falling due:

Group	Loan notes £'000	Finance leases £'000	2001 Total £'000	Bank loans £'000	Loan notes £'000	Finance leases £'000	2000 Total £'000
Between one and two years	**500**	**931**	**1,431**	–	–	2,306	2,306
Between two and five years	**–**	**122**	**122**	11,308	3,000	1,375	15,683
	500	**1,053**	**1,553**	11,308	3,000	3,681	17,989

Falling due:

Company	Loan notes £'000	2001 Total £'000	Bank loans £'000	Loan notes £'000	2000 Total £'000
Between one and two years	**500**	**500**	–	–	–
Between two and five years	**–**	**–**	8,000	3,000	11,000
	500	**500**	8,000	3,000	11,000

The French Thornton Partnership was acquired in 2000 for an initial consideration of £8,530,000 cash, £207,000 acquisition costs and a maximum deferred consideration of £3,750,000 payable in ITNET plc shares and £3,000,000 payable (at the option of the vendors) by either ITNET shares or loan notes. In May 2001 the Group issued 595,945 shares at £1.97 and loan notes totalling £825,000 representing, in aggregate, the maximum consideration of £2m payable for business performance in the year ended 31 December 2000. Further consideration of a maximum of £4.25m is payable for business performance in the year ended 31 December 2001: of this amount, £3.75m is payable in ITNET shares and £500,000 in either shares or loan notes. A maximum consideration of £500,000 is payable in either shares or loan notes for business performance in the year ending 31 December 2002. The issued loan notes attract an interest rate of 5.25%. The issued loan notes are payable at the discretion of the holder at any time and at the discretion of the Group at any time after 30 June 2005.

The amount repayable by instalments, any of which are repayable after the five year period, amounts to £Nil (2000: £Nil).

The Group's policy in relation to interest rate management and related treasury issues is set out in the Treasury risk management section of the Financial review.

13 Fixed assets – investments

	Group £'000	Company £'000
Cost and net book value		
At 1 January 2001 and as at 31 December 2001	**1,860**	**53,326**

On 16 November 1995, ITNET plc acquired 100% of the Ordinary Share capital of ITNET UK Limited, a company registered in England. The principal activity of the Company is the provision of outsourcing of IT and related administrative services.

On 15 May 1999 ITNET plc acquired 100% of the Ordinary Share capital of Technosys Limited, a company registered in England.

On 1 February 2000 ITNET plc acquired 100% of the Ordinary Share capital of The French Thornton Partnership, a company registered in England, for an initial consideration of £8,530,000, estimated earn-out of £6,750,000 and acquisition costs of £207,000. The principal activity of The French Thornton Partnership is consultancy. The Directors believe that the full value of contingent consideration will be paid.

On 20 March 2000 ITNET plc issued 600,000 shares (nominal value £60,000) to a QUEST trustee company in relation to SAYE options issued to employees. None of the QUEST shares were transferred to employees during the year. Dividends on these shares have been waived.

The Directors do not consider that there has been any diminution in value of these investments since 31 December 2000.

14 Stocks and work in progress

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

15 Debtors

	2001 Group £'000	2001 Company £'000	2000 Group £'000	2000 Company £'000
Trade debtors	**18,880**	**–**	21,038	–
UK corporation tax	**–**	**–**	205	–
Deferred taxation (see Note 18)	**1,524**	**2**	3,777	–
Prepayments and accrued income	**3,392**	**–**	1,326	–
Amounts owed by group undertakings	**–**	**2,129**	–	1,993
	23,796	**2,131**	26,346	1,993

Included within Prepayments and accrued income are amounts falling due after more than one year of £1,705,000 (2000: £Nil). Included within Deferred taxation are amounts falling due after more than one year of £1,524,000 (2000: £1,201,000).

The fair value of debtors is not materially different from the book values stated above.

18 Deferred taxation

Deferred taxation asset at 30% (2000: 30%) is as follows:	2001 Group £'000	2001 Company £'000	2000 Group £'000	2000 Company £'000
Accelerated capital allowances	**1,227**	**–**	1,156	–
Short-term timing differences	**297**	**2**	45	–
Losses	**–**	**–**	2,576	–
	1,524	**2**	3,777	–

19 Provisions for liabilities and charges

	Group £'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.

20 Called-up share capital

Equity:	2001 Authorised £'000	2001 Allotted £'000	2000 Authorised £'000	2000 Allotted £'000
Ordinary Shares of 10p each	**10,584**	**7,160**	10,584	7,096

Allotment of shares

Since 1 January 2001 new Ordinary Shares of 10p each have been issued as follows:

Purpose of issue:	Number of shares Thousands	Price per share £	Valuation/ proceeds £'000
French Thornton earn-out	596	1.97	1,175
Scrip dividend	40	2.31	93

On 30 September 1998, 720,328 Share Options at £3.10 were issued to employees under a Savings-related Share Option Scheme. At 31 December 2001 319,891 of these Options were still outstanding.

On 14 October 1999, 263,680 Share Options at £3.77 were issued to employees under a Savings-related Share Option Scheme. At 31 December 2001 185,425 of these Options were still outstanding.

On 10 November 2000, 745,440 Share Options at £2.07 were issued to employees under a Savings-related Share Option Scheme. At 31 December 2001 631,269 of these Options were still outstanding.

On 19 October 2001, 749,660 Share Options at £1.48 were issued to employees under a Savings-related Share Option Scheme. At 31 December 2001 748,613 of these Options were still outstanding.

Under the Executive Share Option Scheme employees (including full-time Directors) may be granted options to acquire Ordinary Shares at the then market value. The Remuneration Committee of the Company must specify the performance conditions which must be satisfied before the Options can be exercised. Options over 614,931 Ordinary Shares were granted in March and October 1999, 528,931 at £4.03 and 86,000 at £4.85. Options over 539,226 Ordinary Shares were granted in April and October 2000, 423,271 at £7.34 and 115,955 at £2.53. Options over 917,838 Ordinary Shares were granted in 2001, 674,998 at £2.22 and 7,334 at £2.32 in March 2001 and 235,506 at £2.22 in October 2001. There were 1,665,999 Options outstanding at 31 December 2001.

The Directors have taken advantage of the exemption under UITF Abstract 17 (Revised) from the need to apply the provisions of the Abstract to Inland Revenue approved SAYE Schemes.

21 Reserves

Group	Total £'000	Profit and loss account £'000	Share premium £'000
At 1 January 2001	4,414	(23,055)	27,469
Premium on issues of new share capital	1,204	–	1,204
Profit for the year	4,113	4,113	–
At 31 December 2001	**9,731**	**(18,942)**	**28,673**
Company			
At 1 January 2001	28,721	1,252	27,469
Premium on issues of new share capital	1,204	–	1,204
Profit for the year	191	191	–
At 31 December 2001	**30,116**	**1,443**	**28,673**

The opening and closing group profit and loss reserves are shown after the write-off of £19,823,000 of goodwill (2000: £19,823,000) which relates to acquisitions prior to 1998.

As permitted by section 230 of the Companies Act 1985 ITNET plc has not presented its own profit and loss account.

22 Reconciliation of movements in shareholders' funds

	2001 Group £'000	**2001 Company £'000**	2000 Group £'000	2000 Company £'000
Profit/(loss) after taxation	**6,612**	**2,690**	(129)	(755)
Dividends paid and proposed	**(2,499)**	**(2,499)**	(2,335)	(2,335)
Share capital issued and subscribed	**64**	**64**	66	66
Shares to be issued	**–**	**–**	1,250	1,250
Share premium account	**1,204**	**1,204**	5,346	5,346
Amounts deducted in respect of shares issued to the QUEST	**–**	**–**	(3,210)	–
Net addition to shareholders' funds	**5,381**	**1,459**	988	3,572
Opening shareholders' funds	**15,260**	**39,567**	14,272	35,995
Closing shareholders' funds	**20,641**	**41,026**	15,260	39,567

23 Notes to the Cash flow statement

(a) Net cash inflow from operating activities

	2001 £'000	2000 £'000
Operating profit/(loss)	**10,926**	(449)
Depreciation on fixed assets	**5,454**	6,024
Amortisation of goodwill	**2,259**	1,859
(Profit)/loss on disposal of fixed assets	**(20)**	2
Decrease/(increase) in debtors	**183**	(6,592)
(Increase)/decrease in stocks	**(978)**	341
(Decrease)/increase in creditors	**(2,640)**	8,667
	15,184	9,852

(b) Returns on investments and servicing of finance

	2001 £'000	2000 £'000
Interest received	**265**	301
Interest paid	**(310)**	(715)
Interest element of finance lease rentals paid	**(343)**	(500)
	(388)	(914)

(c) Capital expenditure

	2001 £'000	2000 £'000
Payments to acquire fixed assets	**(2,698)**	(3,410)
Receipts from sale of tangible fixed assets	**2,150**	60
	(548)	(3,350)

(d) Financing

	2001 £'000	2000 £'000
Loans (repaid)/issued	**(11,308)**	11,308
Capital element of finance lease repayments	**(3,417)**	(2,347)
	(14,725)	8,961

(e) Analysis of changes in net debt

	At 1 January 2001 £'000	Cash flows £'000	New loan notes £'000	**At 31 December 2001 £'000**
Cash at bank and in hand	15,873	(3,521)	–	**12,352**
Loans	(11,308)	11,308	–	**–**
Loan notes	–	–	(825)	**(825)**
Finance leases	(6,573)	3,417	–	**(3,156)**
Total	(2,008)	11,204	(825)	**8,371**

During the year the Group issued loan notes with a value of £825,000 to the vendors of The French Thornton Partnership in respect of the earn-out arrangements.

(f) Acquisitions

	2001 £'000	2000 £'000
Purchase of subsidiary undertakings	**–**	(11,440)
Acquisition expenses	**–**	(352)
Cash at bank and in hand acquired	**–**	1,421
	–	(10,371)

24 Guarantees and other financial commitments

(a) Capital commitments

At the end of the year, capital commitments were:

	2001 Group £'000	2001 Company £'000	2000 Group £'000	2000 Company £'000
Contracted but not provided for	**312**	**–**	1,363	–

(b) Commitments under operating leases

During the next year, the Group 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	2001 Motor vehicles £'000	2000 Motor vehicles £'000
Within one year	**316**	399	**274**	673	**–**	–
Between two and five years	**720**	864	**502**	624	**493**	–
After more than five years	**1,321**	1,214	**–**	–	**–**	–
	2,357	2,477	**776**	1,297	**493**	–

(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.

25 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 pension charge for the year is £2,024,000 (2000: £1,369,000).

25 Pension arrangements continued

FRS17 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 disclose 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:

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**

Group	**2001 £'000**
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 FRS17 valuation reflects the current view of salary inflation.

Net assets	**2001 £'000**
Net assets excluding pension asset	**20,641**
Pension asset	**843**
Net assets including pension asset	**21,484**

Reserves	**2001 £'000**
Profit and loss reserves excluding pension asset	**(18,942)**
Pension asset	**843**
Profit and loss reserves including pension asset	**(18,099)**

26 Related parties

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

Analysis of shareholding – by size of holding

Size of holding 10p shares	Number of holdings	% of total number of holdings	Balance as at 31 December 2001	% of ordinary capital
1-500	1,517	43.65	287,804	0.40
501-1,000	502	14.45	388,074	0.54
1,001-5,000	775	22.30	1,794,176	2.51
5,001-50,000	566	16.29	8,054,678	11.25
50,001-1,000,000	100	2.88	25,345,335	35.40
1,000,001-highest	15	0.43	35,727,585	49.90
Total	**3,475**	**100.00**	**71,597,652**	**100.00**

Analysis of shareholding – by investor type

Type of investor	Number of holdings	% of total number of holdings	Number of 10p shares	% of total number of 10p shares
Individuals	2,921	84.06	10,241,828	14.30
Institutional/corporate	554	15.94	61,355,824	85.70
Total	**3,475**	**100.00**	**71,597,652**	**100.00**

Financial calendar

Annual report mailed to shareholders	Monday 8 April 2002
Annual General Meeting	Monday 13 May 2002
Half-year results announced	Tuesday 10 September 2002 (provisional)