

ITNET plc

Registered number: 3036256

Report and Accounts

for the year ended 31 December 2004



A35 *AY3J07D2* 0471
COMPANIES HOUSE 29/07/05

ITNET plc
Contents of the Accounts
for the year ended 31 December 2004

	Page
Company information	1
Report of the Directors	2-5
Remuneration Report	6-8
Independent Auditors' Report	9
Group Profit and Loss Account	10
Group Balance Sheet	11
Group Cash Flow Statement	12
<i>Parent Company Balance Sheet</i>	13
Notes to the Accounts	14-23

ITNET plc

Company information

for the year ended 31 December 2004

Directors:	Executive:	B P Blow (resigned 03.02.05) R J Watts (resigned 03.06.04) C Gollings (resigned 11.02.04) R F Taylor (resigned 03.02.05) T F Carroll (resigned 03.02.05) A Jenner (appointed 03.02.05 and resigned 07.03.05) C Hyman (appointed 03.02.05 and resigned 07.03.05) K Beeston (appointed 03.02.05 and resigned 07.03.05) I Downie (appointed 07.03.05) S Baxter (appointed 07.03.05) P Holden (appointed 07.03.05)
	Non-Executive:	Lord Crickhowell (resigned 28.06.04) O Whitehead (appointed 29.03.04 and resigned 03.02.05) S B Birkenhead (resigned 03.02.05) S A Ricketts (resigned 19.05.04) F Plowden (resigned 03.02.05)
Secretary:		A J Foster (resigned 03.02.05) J Roberts (appointed 03.02.05 and resigned 07.03.05) F Todd (appointed 07.03.05)
Registered office:		Serco House 16 Bartley Wood Business Park Bartley Way Hook Hampshire RG27 9UY
Registered number:		3036256
Principal Bankers:		The Royal Bank of Scotland plc 79/83 Colmore Row Birmingham B3 2AP
Stockbrokers:		Cazenove & Co. Ltd 20 Moorgate London EC2R 6DA
Registrars:		Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA
Auditors:		PricewaterhouseCoopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT

ITNET plc

Report of the Directors for the year ended 31 December 2004

The Directors are pleased to submit their Annual Report to shareholders and the audited accounts of the Group for the year ended 31 December 2004.

Results and dividends

The loss on ordinary activities of the Group for the financial year, after taxation, was £6,607,000 (2003: profit of £12,014,000 as restated). No final ordinary dividend (2003: 2.93p) will be recommended by the Board. An interim dividend of 1.46p per share (2003: 1.33p per share) was paid on 6 October 2004.

Review of business and future developments

The principal activity of the Group is the provision of IT, applications, consultancy, business process and e-services to businesses and other organisations in the Commercial and Public Sector markets. We aim to assist our clients by improving the quality of their services, reducing their costs of delivery and by providing the means for them to transform the way they deliver services to their customers.

Post balance sheet events

On 16 December 2004, Serco Group plc announced a cash offer with a partial share alternative to acquire the entire allotted and authorised share capital of ITNET plc. On 3 February 2005, the offer became wholly unconditional.

In July 2005, the e-Government Unit of the Cabinet Office and the Company's principal subsidiary, Serco Solutions Limited (formerly known as ITNET UK Limited) have settled the disputes arising from the data centre solutions contract known as the "True North" project. The settlement has been achieved amicably without any attribution of blame to either party and without any significant additional loss from that reported in our interim results for the 6 months ended 30 June 2004.

The terms of the settlement are commercially confidential. The impact of the settlement is reflected in the exceptional loss disclosed within these financial statements.

Substantial shareholdings

Following the acquisition of the company by Serco Group plc in February 2005, there are no other shareholders at the date of this report.

Share capital

Details of changes in share capital during 2004 can be found in Note 22 of the Accounts.

All Employee Share Incentive Schemes

In the year, the Group operated a Savings-related Share Option (Sharesave) Scheme though no new grants of Options were made. Following the acquisition of ITNET plc by Serco Group plc all share options have been exercised or cancelled.

Under this Scheme, all employees who had been employed by the Group for at least one month could be offered Options to acquire Ordinary Shares at a discount of up to 20% of market value. The total number of Sharesave Options granted under the Scheme was 3,226,443 and the details of each Option grant are set out below:

Month / Year grant	of	Number of Options granted	Option price £
Sep-98		720,328	3.10
Oct-99		263,680	3.77
Nov-00		745,440	2.07
Oct-01		749,660	1.48
Oct-02		747,335	1.34

The ITNET Share Incentive Plan (SIP) was introduced in January 2004. Under the SIP, employees were entitled to purchase shares in ITNET out of their gross salary, subject to a maximum spend of £1,500 per annum, which provided a tax saving to the employee. To encourage participation in the SIP, the Company funded the acquisition of one ITNET share for every four acquired by the employee.

Following the acquisition of ITNET plc by Serco Group plc all share options either lapsed, were bought out or were exercised.

**Report of the Directors (continued)
for the year ended 31 December 2004**

Executive Share Option and Incentive Schemes

Under the Executive Share Option Scheme, senior managers (including full-time Executive Directors) could be granted Options to acquire Ordinary Shares at the market value at time of grant. The Remuneration Committee specified the performance conditions which must be satisfied before Options could be exercised. Options over a total of 4,599,800 Ordinary Shares were granted under the Scheme. No options were granted in 2004. All Options were exercisable between three and ten 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	Option price £
Mar-99	528,931	4.03
Oct-99	86,000	4.85
Apr-00	423,271	7.34
Oct-00	115,955	2.53
Mar-01	674,998	2.22
Mar-01	7,334	2.32
Oct-01	235,506	2.22
Feb-02	751,837	2.13
Apr-02	415,708	2.38
Oct-02	751,524	1.62
May-03	608,736	2.11

Under the ITNET Long-Term Incentive Plan the Executive Directors and a small number of senior managers were awarded conditional rights to receive shares in ITNET three years after the date of the award. Awards were made in May 2003 over a total of 969,385 shares. No awards were made in 2004. These rights were subject to the staff being employed at the date of release and to the Group having met the performance requirements applicable to the award. The Total Shareholder Return (change in share price plus dividends paid in the period) of the Group was measured at the end of the three year period and compared to that achieved by each of 20 companies in a comparator group selected by the Remuneration Committee. Only where the Group was in the Upper Quartile of the Comparator Group would executives receive 100% of the shares conditionally awarded to them. No LTIPs were released for sub-median performance, with straight-line vesting for performance between the Median performance, with straight-line vesting for performance between the Median and the Upper Quartile.

Following the acquisition of ITNET plc by Serco Group plc all share options either lapsed, were bought out or were exercised.

Directors and their interests

The names of the Directors at the year-end are shown on page 1 and details of their interests, either directly or indirectly, in the share capital of the Company at the year end are shown on page 7 as part of the Remuneration report. C Gollings, R J Watts and S A Ricketts resigned as a directors on 11 February 2004, 3 June 2004 and 19 May 2004 respectively. Lord Crickhowell retired as Chairman on 28 June 2004.

O Whitehead was appointed as a non-executive director on 29 March 2004 and was appointed as non-executive Chairman on 29 June 2004. All current executive and non-executive directors resigned on 3 February 2005 following the acquisition by Serco Group plc.

At no time during the year 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).

ITNET plc

Report of the Directors (continued) for the year ended 31 December 2004

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 of the Group 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.

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.

The Directors were responsible for the maintenance and integrity of the website (www.itnetplc.com). Following the acquisition of ITNET plc by Serco Group plc, that website was closed. UK legislation governing the preparation and dissemination of financial statements may differ from that in other jurisdictions.

Charitable and political donations

The total of charitable donations made by the Group during the year amounted to £5,820 (2003: £5,000). No political donations have been made by the Group (2003: £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 corporate 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 and adhering to laws and regulations.

The Company has a number of initiatives aimed at supporting the communities in which it operates.

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 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. Managers receive training in diversity to ensure that all existing and prospective staff are treated fairly in all employment matters regardless of sex, race, colour, nationality, ethnic origin, sexual orientation, gender reassignment, marital status, religious beliefs or political opinions, disability or part-time working.

The Group communicates with its managers in a variety of ways, including twice yearly regional managers meetings and six monthly live internet management briefings led by the Chief Executive and the Group HR Director.

Performance reviews are conducted formally for all employees twice per year. Individuals' training and development needs are identified at the performance review to supplement training that ITNET has identified as core for specific groups of employees. ITNET has been an Investors in People company since March 1996, with two re-accreditations completed since that time.

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

ITNET plc

**Report of the Directors (continued)
for the year ended 31 December 2004**

Our values (continued)

ITNET is a competitive employer in terms of compensation and benefits, with a performance-based bonus scheme in place to reward contribution and link incentives to the performance of business objectives.

The Group operates a flexible benefits scheme. This gives eligible ITNET employees the opportunity to exercise choice over certain elements of their reward package whilst retaining the same level of total remuneration.

Employee involvement

The policy of informing and consulting with employees is maintained by means of regular team briefings and meetings, and employees are encouraged to present their views and suggestions in respect of the Group's performance. The Group's intranet provides fast and effective communication to staff wherever they are based.

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.

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 37 days (2003: 52 days). The Company had no trade creditors.

Going concern

The Directors have reviewed the Group's budget and cash flows for 2005 and the Group's Long Range Plan and are satisfied that it is appropriate to prepare the accounts on a going concern basis.



By order of the Board
F Todd Company Secretary
29 July 2005

ITNET plc

Remuneration report for the year ended 31 December 2004

During the year, the Remuneration and Appointments Committee was chaired by F Plowden and comprised O Whitehead and S B Birkenhead. Lord Crickhowell ceased to be a member of the Committee on 28 June 2004 following his resignation. The Committee appointed and received wholly independent advice on executive compensation and share schemes, from Deloitte & Touche LLP during the year. During the year Deloitte & Touche LLP also advised the Company on the introduction of a new flexible benefits system. Except when her own remuneration was being discussed the Chief Executive, Bridget Blow, took part in discussions in relation to the remuneration and benefits of the other Executive Directors and senior Group Executives. During the year the Company complied with The Directors' Remuneration Report Regulations 2002, and the recommendations of the Combined Code on Directors' remuneration as implemented by the Financial Services Authority in its Listing Rules for listed companies.

S A Ricketts resigned on 19 May 2004. Following the acquisition by Serco Group plc on 3 February 2005, all then directors of ITNET plc resigned as directors. B P Blow and T F Carroll have transferred to Serco Group plc and S B Birkenhead remains in place as Chairman of Pension Trustees. The information provided below is that which applied for the year ended 31 December 2004.

No policy statement has been made with respect to remuneration policy for 2005 and future years, as this will no longer be applicable following the acquisition by Serco Group plc.

Directors' service contracts

Details of the service contracts of the Directors of the Company at the year end were as follows:

Name	Company Notice Period	Contract date	Unexpired term of contract (months)
Bridget Blow Chief Executive	12 months	06/1998	Rolling contract
Robin Taylor Group Finance Director	12 months	03/2000	Rolling contract
Tom Carroll Managing Director: Public Sector	6 months	03/2001	Rolling contract
Oliver Whitehead Non Executive Director	3 months	03/2004	Rolling contract
Brian Birkenhead Non Executive Director	3 months	06/1998	Rolling contract
Francis Plowden Non Executive Director	3 months	01/2001	Rolling contract
Simon Ricketts Non Executive Director	3 months	06/1998	Rolling contract

There are no special provisions contained in any of the Executive Directors' service contracts which provide for longer periods of notice on a change of control of the Company. In addition, there are no special provisions providing for additional compensation on an Executive Director's cessation of employment with the Company.

All Executive Directors' service contracts are initially for a fixed period of one year from date of appointment, and will continue thereafter unless terminated by written notice of at least 6 or 12 months (see table above). This arrangement is in line with best corporate practice for listed companies. In the event of the termination of an Executive's service contract, salary and benefits will be payable during the notice period. However, all Executive Directors will be expected to mitigate their loss in accordance with general legal principles in the event of their cessation of employment.

ITNET plc

Remuneration report (continued)
for the year ended 31 December 2004

Table 01 - Current remuneration (Auditable information)

	Salary and fees £'000	Benefits in kind £'000	Annual bonus £'000	Total 2004 £'000	Total 2003 £'000
Executive Directors' remuneration					
B P Blow	293	26	-	319	444
R J Watts	84	14	-	98	281
R F Taylor	196	22	-	218	291
C Gollings	101	9	-	110	132
T Carroll	149	26	-	175	216
Total	823	97	-	920	1,364
Non-executive Directors' remuneration					
Lord Crickhowell (Chairman)	36	-	-	36	70
Oliver Whitehead (Chairman)	44	-	-	44	-
S A Ricketts	14	-	-	14	27
S B Birkenhead	35	-	-	35	30
F Plowden	30	-	-	30	27
Total	159	-	-	159	154
Total emoluments to Directors	982	97	-	1,079	1,518

01 Salary and fees for R J Watts and R F Taylor include additional payments of £5,591 and £15,750 respectively for "over cap" pension elements.

02 Benefits in kind include car allowances, company cars, car fuel and private medical insurance.

03 C Gollings and R Watts left ITNET on 11 February 2004 and 3 June 2004 respectively.

04 B P Blow earns a fee of £5,000 per annum as a Non-executive Director of the Bank of England, which is paid to the Company.

Table 02 - Directors' pensions (Auditable information)

Pension benefits earned by Executive Directors

	Age at year-end	Company contributions to money purchase schemes 2004 £'000	Company contributions to money purchase schemes 2003 £'000	Increase in accrued pension £'000	Total pension accrual at 31 December 2004 £'000	Accrued cash as at 31 December 2004 £'000	Increase in accrued cash sum 2004 £'000	Transfer value as at 31 December 2004 £'000	Transfer value as at 31 December 2003 £'000	Increase in transfer value less Directors' contributions £'000
B P Blow	55	46	44	2	20	-	-	315	259	51
R J Watts	55	4	8	1	21	-	-	329	285	42
R F Taylor	53	8	8	2	8	-	-	109	78	27
C Gollings	43	-	-	1	19	-	-	162	137	23
T Carroll	49	-	-	6	56	90	9	644	529	107

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

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

03 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.

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

05 Both C Gollings and R J Watts left during the year. C Gollings left on 11 February 2004 and R J Watts left on 3 June 2004.

Table 03 - Shares in which a Director is interested (Non-auditable information)

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

	B P Blow	R J Watts	R F Taylor	C Gollings	T Carroll	Lord Crickhowell	S A Ricketts	S B Birkenhead	F Plowden	O Whitehead
Ordinary shares of 10p at 1 January 2004	2,002,000	1,409,000	-	51,437	125,460	24,286	-	25,000	25,000	-
Ordinary shares of 10p at 31 December 2004	2,002,000	1,409,000	700	52,932	125,460	24,286	-	25,000	20,850	20,000

ITNET plc

Remuneration report (continued)
for the year ended 31 December 2004

Table 04 - Share Options granted (Auditable information)

Following the acquisition of ITNET plc by Serco Group plc all share options either lapsed, were bought out or were exercised.

Executive Share Options granted* (Number)	B P Blow	R J Watts	R F Taylor	C Gollings	T Carroll	Exercise Price	Exercise date from	Original Exercise date to
22 March 1999	45,905	29,090	-	8,561	8,447	£4.03	Mar 2002	Mar 2009
7 April 2000	30,654	18,392	57,221	5,654	5,279	£7.34	Apr 2003	Apr 2010
1 March 2001	32,500	32,500	135,000	32,500	32,500	£2.22	Mar 2004	Mar 2011
30 March 2001	-	-	5,000	-	-	£2.32	Mar 2004	Mar 2011
25 October 2001	68,851	28,311	-	10,293	10,293	£2.22	Oct 2004	Oct 2011
23 February 2002	106,808	53,169	56,338	35,211	35,211	£2.13	Feb 2005	Feb 2012
18 October 2002	112,624	60,193	59,406	37,129	37,129	£1.62	Oct 2005	Oct 2012
22 May 2003	131,753	58,649	82,938	42,654	47,630	£2.11	May 2006	May 2013

Total Share Options granted 529,095 280,304 395,903 172,002 176,489

* Performance conditions: 22/03/99 and 07/04/00 grants - 100% at eps growth of 30% per annum, 0% at eps growth of inflation + 4% per annum;

01/03/01, 30/03/01, 25/10/01 and 23/02/02 grants - 100% at eps growth of 10% per annum, 0% at eps growth of RPI + 2% per annum;

18/10/02 grant - 100% at eps growth of inflation + 8% per annum, 50% at eps growth of inflation + 5% per annum;

22/05/03 grant - 100% at eps growth of inflation + 10% per annum, 40% at eps growth of inflation + 5% per annum.

Sharesave Options granted (Number)	B P Blow	R J Watts	R F Taylor	C Gollings	T Carroll	Exercise Price	Exercise date from	Original Exercise date to
30 September 1998	1,567	-	-	1,567	1,567	£3.10	Sep 2003	Mar 2004
14 October 1999	-	-	-	537	-	£3.77	Oct 2004	Apr 2005
10 November 2000	-	580	-	-	580	£2.07	Nov 2003	May 2004
10 November 2000	1,010	-	1,010	1,010	-	£2.07	Nov 2005	May 2006
19 October 2001	-	-	1,047	1,824	-	£1.48	Oct 2006	Apr 2007
8 October 2002	-	1,765	1,765	1,765	-	£1.34	Oct 2007	Apr 2008

Total Share Options granted 2,577 2,345 3,822 6,703 2,147

Long-Term Incentive Plan awards

(Number)	B P Blow	R J Watts	R F Taylor	C Gollings	T Carroll	Exercise Price	Original Release date of LTIP grant
22 May 2003	197,630	78,199	82,938	56,872	63,507	£2.11	May 2006

* Performance conditions: 22/05/03 award - 100% for total shareholder return (TSR) equal to or greater than that of the upper quartile of its comparators, 30% for TSR equal to or greater than the median of its comparators, 0% for TSR below the median.

There were no grants of Executive Share Options or Sharesave Options in 2004.

The market price of ITNET plc ordinary shares at 31 December 2004 was £3.27. During the year the market price of the shares ranged between £3.01 and £3.27.


P Todd Company Secretary
29 July 2005

ITNET plc

**Independent Auditors' Report to the members of
ITNET plc**

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement, 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. We have also audited the disclosures required by Part 3 of the Schedule 7A to the Companies Act 1985 contained in the Remuneration Report ("the auditable information").

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. The Directors are also responsible for preparing the Remuneration Report.

Our responsibility is to audit the financial statements and the auditable information in the Remuneration Report 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 whether the financial statements and the auditable information of the Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors' 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 Report of the Directors' and the unaudited information in the Remuneration Report.

Basis of audit opinion

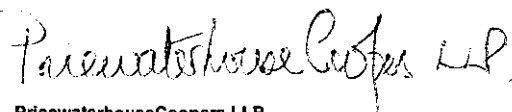
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable information in the Remuneration Report. It also includes 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 and the auditable information of the Remuneration Report 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 and Group's affairs at 31 December 2004 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

29 July 2005

ITNET plc
Group profit and loss account
for the year ended 31 December 2004

	Notes	Before goodwill amortisation, impairment and exceptional items £'000	Goodwill amortisation, impairment and exceptional items £'000	2004 Total £'000	Before goodwill amortisation, impairment and exceptional items £'000	Goodwill amortisation, impairment and exceptional items £'000	As restated 2003 Total £'000
Turnover	2	208,630	-	208,630	188,478	-	188,478
Cost of sales		(177,667)	-	(177,667)	(153,187)	-	(153,187)
Exceptional items	3	-	(20,440)	(20,440)	-	-	-
Total cost of sales		(177,667)	(20,440)	(198,107)	(153,187)	-	(153,187)
Gross profit		30,963	(20,440)	10,523	35,291	-	35,291
Other operating expenses before goodwill amortisation, impairment and exceptional items		(16,364)	-	(16,364)	(16,895)	-	(16,895)
Goodwill amortisation		-	(804)	(804)	-	(1,159)	(1,159)
Exceptional items	3	-	(1,406)	(1,406)	-	-	-
Total operating expenses	4	(16,364)	(2,210)	(18,574)	(16,895)	(1,159)	(18,054)
Operating profit/(loss)		14,599	(22,650)	(8,051)	18,396	(1,159)	17,237
Interest receivable and similar income	5	236	-	236	357	-	357
Interest payable and similar charges	6	(123)	-	(123)	(163)	-	(163)
Profit/(loss) on ordinary activities before taxation	7	14,712	(22,650)	(7,938)	18,590	(1,159)	17,431
Tax on profit on ordinary activities		(4,801)	-	(4,801)	(5,417)	-	(5,417)
Tax on exceptional items		-	6,132	6,132	-	-	-
Total taxation	9	(4,801)	6,132	1,331	(5,417)	-	(5,417)
Profit/(loss) on ordinary activities after taxation		9,911	(16,518)	(6,607)	13,173	(1,159)	12,014
Dividends paid and proposed	10	(1,067)	-	(1,067)	(3,097)	-	(3,097)
Retained profit/(loss) for the financial year	23	8,844	(16,518)	(7,674)	10,076	(1,159)	8,917
Earnings per share (pence)	11						
- Before goodwill amortisation and exceptional items				13.57			18.14
- Exceptional items				(21.51)			-
- Before goodwill amortisation				(7.94)			18.14
- Goodwill amortisation				(1.10)			(1.60)
- Basic				(9.04)			16.54
- Fully diluted				(9.04)			16.40

All activities are from continuing operations.

The Company's loss after taxation for the financial year is £890,000 (2003: profit of £12,815,000).

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

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

Statement of total recognised gains and losses
for the year ended 31 December 2004

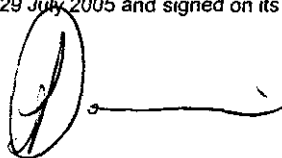
	Notes	2004 Total £'000	2003 Total £'000
(Loss)/profit for the year		(7,674)	8,917
Total gains and losses recognised for the year		(7,674)	8,917
Prior year restatement	1(a)	(1,282)	-
Total gains and losses recognised since last report		(8,956)	-

ITNET plc
Group balance sheet
as at 31 December 2004

	Notes	2004 £'000	As restated 2003 £'000
Fixed assets			
Intangible assets	12	12,001	12,805
Tangible assets	13	10,298	19,894
		22,299	32,699
Current assets			
Stocks and work in progress	15	4,089	4,725
Debtors due within one year	16	30,396	28,469
Debtors due in more than one year	16	12,787	7,404
Assets held for resale	17	5,900	-
Cash at bank and in hand		6,535	24,388
		59,707	64,986
Creditors			
Amounts falling due within one year	18	(51,513)	(64,425)
Net current assets		8,194	561
Total assets less current liabilities		30,493	33,260
Creditors			
Amounts falling due after more than one year	19	(4,528)	(4,546)
Provisions for liabilities and charges	21	(4,350)	(500)
Net assets		21,615	28,214
Capital and Reserves			
Called up share capital - equity	22	7,346	7,330
Share premium account	23	445	32,323
Profit and loss account	23	13,824	(11,439)
Equity shareholders' funds	24	21,615	28,214

Approved by the Board of Directors on 29 July 2005 and signed on its behalf by

I Downie
Chief Executive



S Baxter
Finance Director



The accompanying notes are an integral part of this balance sheet.

ITNET plc
Group cash flow statement
for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Net cash (outflow)/inflow from operating activities	25(a)	(2,491)	26,637
Returns on investments and servicing of finance	25(b)	17	106
Taxation paid		(1,478)	(5,681)
Capital expenditure	25(c)	(10,013)	(9,150)
		(13,965)	11,912
Equity dividends paid		(3,190)	(2,903)
Cash flow before management of liquid resources and financing		(17,155)	9,009
Financing	25(d)	(698)	(1,336)
(Decrease)/increase in cash		(17,853)	7,673
Reconciliation of net cash flow to movement in net cash:			
(Decrease) / increase in cash in the year		(17,853)	7,673
Decrease in debt and lease financing		1,273	1,039
New loan notes		-	(400)
Loan note redemptions		500	1,025
New finance leases		(1,665)	(5,516)
Change in net cash		(17,745)	3,821
Opening net cash at 1 January		18,263	14,442
Net cash at 31 December	25(e)	518	18,263

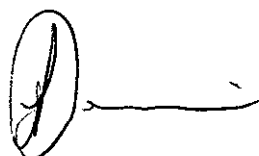
The accompanying notes are an integral part of the cash flow statement.

ITNET plc
Parent company balance sheet
as at 31 December 2004

	Notes	2004 £'000	As restated 2003 £'000
Fixed assets			
Investments	14	29,653	29,653
Current assets			
Debtors due within one year	16	22,495	25,962
Cash at bank and in hand		40	17
		22,535	25,979
Creditors			
Amounts falling due within one year	18	(253)	(2,815)
Net current assets		22,282	23,164
Net assets		51,935	52,817
Capital and reserves			
Called up share capital - equity	22	7,346	7,330
Share premium account	23	445	32,323
Profit and loss account	23	44,144	13,164
Equity shareholders' funds	24	51,935	52,817

Approved by the Board of Directors on 29 July 2005 and signed on its behalf by

I Downie
Chief Executive



S Baxter
Finance Director



The accompanying notes are an integral part of this balance sheet.

1 Accounting policies

The principal accounting policies and significant estimation techniques, all of which, with the exception of those noted in (a) below, have been applied consistently throughout the year and with the preceding year end are as follows:

(a) Change in accounting policies

Comparative figures for the year to December 2003 have been restated following the adoption of IFRS 3, Accounting for ESOP trusts. Until December 2003 the shares held by the Quest Trustee company were shown as fixed asset investments with any revaluations being recognised through the profit and loss account. Following the change in accounting policy the shares are shown as a deduction from shareholders' funds and are carried at original cost with any proceeds from share transactions being recognised in reserves.

The change in accounting policy is reflected in the full year results and requires a restatement of the results for 2003 and prior years. These adjustments have no cash impact and have reduced operating profits by £462,000 for 2003.

As a result the comparative figures have been adjusted as follows:

	Year to 31 Dec 2003	
	Profit for the year after dividends £'000	Net assets £'000
As previously reported	9,379	29,496
Impact of implementation of IFRS 3	(462)	(1,282)
As restated	8,917	28,214

(b) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

(c) Basis of consolidation

The Group accounts include the results of the parent Company and its subsidiary undertakings up to 31 December 2004. The trading results of businesses acquired during the year are included in profit on ordinary activities from the effective date of acquisition. Material joint ventures are included using the gross equity method.

Inter-company balances and transactions are eliminated on consolidation.

(d) Revenue and cost recognition on contracting activities

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 and includes financing revenues. Revenues are recognised as the service is performed. Revenues on maintenance contracts are taken evenly over the duration of the contract. Pre-contract costs are written off immediately to the Profit and Loss account, until such time as the contract is virtually certain to proceed.

For the implementation of software solutions, the full software licence revenue is recognised on delivery of the licenced software from the third party vendor only when all significant risks and rewards of ownership transfer immediately to the customer and that payment is guaranteed. The costs of customisation of the software licence will be charged to work in progress and revenues and costs are only recognised on customer acceptance of the design specification and then full project completion provided that payment is virtually certain. Revenues recognised in advance of billings to customers are shown in amounts recoverable on contracts.

Revenues and costs in relation to any initial investment, normally at contract take-on, that is required in order to transfer the existing services of our customers over to ITNET, or indeed to get a customer live on any entirely new service, is recognised on completion of this investment subject to customer acceptance that the service or relevant other deliverable is live and the payment for this investment being virtually certain. Where appropriate this initial investment will be recognised on a milestone basis as individual services go live, subject to each recognised milestone being virtually certain of being paid on a standalone basis.

Revenues from time and material contracts are recognised on sign off by the customer at agreed billing rates to the extent that no further obligations exist and payment is virtually certain.

(e) Financial instruments

The Group does not use complex financial instruments or derivatives. All financial liabilities and assets are reflected at cost unless otherwise stated.

(f) Foreign currencies

The Group does not undertake any significant transactions in foreign currencies and any transactions arising are settled at spot rates.

Any year-end balances are translated at prevailing year-end rates.

(g) 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 over the shorter of the bases shown in Note 1(i) or the lease term.

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. Incentives under operating leases are spread evenly over the period to which the benefit relates.

(h) Provisions

The carrying values of trading assets are regularly reviewed to determine the need for specific provisions. Any provisions required are charged against profit in the year concerned. Provisions for liabilities are based on Directors' estimates of the probable economic out-turn using past experience and current available information and are not discounted.

(i) Tangible fixed assets

Fixed assets are shown at cost less accumulated depreciation.

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

1 Accounting policies (continued)

(i) Tangible fixed assets (continued)

The principal rates used are as follows:

Plant and equipment:	
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)

(j) Goodwill

Goodwill arises when the cost of acquiring 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 of share capital 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. Goodwill arising from asset acquisitions is amortised on a straight line basis over the life of the assets acquired.

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 the ITNET plc Group 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.

(k) Fixed asset investments

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

(l) Impairment

The carrying value of fixed assets are reviewed for impairment where there is a trigger event that indicated that the asset might be impaired. The impairment is calculated by reference to the value of future earnings from the asset concerned compared with the asset's net realisable value. Any provision for impairment is charged against profit in the year concerned.

(m) 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 disclosed the information in accordance with the transitional arrangements under FRS 17, 'Retirement Benefits'.

(n) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Costs included in work in progress include directly attributable costs excluding overheads.

(o) Taxation including deferred tax

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

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 more likely than not. Deferred tax assets and liabilities are not discounted.

(p) Share schemes

The shares held by the QUEST trustee company in relation to SAYE options to be issued to employees are included in reserves at original cost. Any gain or loss on transfer of shares to employees under SAYE schemes is recognised in reserves.

2 Segmental reporting

	2004 £'000	2003 £'000
Turnover		
Business analysis		
Commercial	90,753	81,150
Public	117,877	107,328
	208,630	188,478

Included within turnover are financing revenues within the Public segment of £642,000 (2003: £385,000).

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 Exceptional items

The exceptional loss comprises a gross loss of £31,340,000 in respect of data centre asset impairment charges and exit costs arising from the group's contract with the UK Government's Cabinet Office which was terminated in June 2004, offset by £10,900,000 received in settlement of the terminated contract, and professional fees of £1,406,000 arising in respect of the acquisition of ITNET plc by Serco Group plc since the year end. The company has settled its dispute with the Cabinet Office in respect of its terminated data centre services contract and the losses shown reflect the effect of that settlement (see Note 29). Details of the losses are as follows:

	£'000
Fixed assets impairment	14,315
Contract work in progress	8,552
Contractual exit costs	8,473
Gross loss	31,340
Transfer of finance lease assets and obligations and contribution towards contractual costs	(10,900)
Net loss recognised on Cabinet Office contract	20,440
Transaction costs	1,406
Exceptional loss	21,846

4 Total operating expenses

	2004 £'000	2003 £'000
Goodwill amortisation	804	1,159
Administration expenses	16,364	16,895
Exceptional administration costs (see Note 3)	1,406	-
Total operating expenses	18,574	18,054

5 Interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest	225	357
Other	11	-
	236	357

6 Interest payable and similar charges

	2004 £'000	2003 £'000
Interest on loan notes	23	48
Interest on bank loans and overdrafts	26	-
Interest on finance leases	67	115
Other	7	-
	123	163

7 (Loss) / Profit on ordinary activities before taxation

	2004 £'000	2003 £'000
(Loss) / Profit on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation of tangible fixed assets:		
- Owned	3,333	3,909
- Assets under finance leases	1,478	1,108
- Impairment of tangible fixed assets	8,415	-
Amortisation and impairment of goodwill	804	1,159
Profit on disposal of tangible fixed assets	(3)	(7)
Operating lease rentals:		
- Properties	1,594	1,594
- Plant & machinery	464	976
- Motor vehicles	367	254
Auditors' remuneration:		
- Audit (Parent Company £5,500, 2003: £5,500)	75	73
- Taxation compliance	33	29
- Taxation advice	62	47
- Working capital report	178	-
- IFRS training	6	-
- Other services not covered above	1	2
Staff costs (see Note 8)	98,543	91,999

8 Staff costs

(a) Employee costs during the year amounted to:

	2004 £'000	2003 £'000
Wages and salaries	83,764	78,632
Social security costs	8,434	7,595
Other pension costs (see Note 27)	6,345	5,772
	98,543	91,999

Details of Directors' remuneration are set out in the Report of the Remuneration Committee.

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

	2004	2003
IT related services	2,215	2,136
Central administration	125	114
	2,340	2,250

9 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	2004 £'000	2003 £'000
UK Corporation tax on (loss)/profit for the year	241	4,816
Adjustments in respect of previous years	729	(318)
Total current tax	970	4,498
Deferred tax:		
- Origination and reversal of timing differences	(1,914)	813
- Adjustments in respect of previous years	(387)	106
Total deferred tax	(2,301)	919
Total taxation (credit)/charge	(1,331)	5,417

The current tax charge is higher than would be expected than if the large company rate of tax were applied to the loss before tax due to the impact of disallowable goodwill and other disallowable expenses in addition to timing differences

The movement on deferred taxation is set out in Note 20.

ITNET plc
Notes to the accounts
For the year ended 31 December 2004

9 Tax on profit on ordinary activities (continued)	2004	2003
Reconciliation of current year tax charge:	£'000	£'000
Expected tax (credit) / charge at 30% (2003: 30%) of profit before tax	(2,381)	5,368
Expenses not deductible for tax purposes	708	281
Accelerated capital allowances and other timing differences	1,914	(813)
Adjustments in respect of previous years	729	(318)
	970	4,498

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

The items in respect of previous years relate to adjustments resulting from settlement of open tax positions with the Inland Revenue.

For the current year, the effective tax rate on the loss has been impacted significantly by exceptional items (see Note 3).

10 Dividends

	2004	2003
	£'000	£'000
Interim dividend paid of 1.46p per share (2003: 1.33p)	1,067	967
Proposed final ordinary dividend of nil p (2003: 2.93p)	-	2,130
	1,067	3,097

11 Earnings per share

The calculation of earnings per share is based on an attributable loss of £6,607,000 (2003: profit of £12,014,000 as restated) divided by 73,047,984 shares (2003: 72,610,049). 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 73,488,628 (2003: 73,228,132) Ordinary shares after adjusting for the full exercise of outstanding Share Options.

12 Intangible fixed assets - goodwill

Group	£'000
Cost	
At 1 January 2004 and as at 31 December 2004	27,601
Amortisation	
At 1 January 2004	14,796
Charge	804
As at 31 December 2004	15,600
Net book value	
At 31 December 2004	12,001
At 31 December 2003	12,805

The goodwill on all acquisitions is being amortised over 20 years.

13 Tangible fixed assets

	Plant and equipment £'000	Assets under construction £'000	Motor Vehicles £'000	Total £'000
Group				
Cost				
At 1 January 2004	25,805	10,614	7	36,426
Transfers	10,614	(10,614)	-	-
Reclassification as assets held for resale (see Note 17)	(7,181)	-	-	(7,181)
Additions	9,905	-	-	9,905
Disposals	(610)	-	-	(610)
As at 31 December 2004	38,533	-	7	38,540
Depreciation				
At 1 January 2004	16,527	-	5	16,532
Charge	4,809	-	2	4,811
Impairment - exceptional (see Note 3)	8,415	-	-	8,415
Reclassification as assets held for resale (see Note 17)	(1,281)	-	-	(1,281)
Disposals	(235)	-	-	(235)
As at 31 December 2004	28,235	-	7	28,242
Net book value				
At 31 December 2004	10,298	-	-	10,298
At 31 December 2003	9,278	10,614	2	19,894

Assets held under finance leases within plant and machinery included above are at cost of £824,232 (2003: £14,922,393) and accumulated depreciation of £824,232 (2003: £9,209,015).

14 Fixed assets - investments

	As restated Group £'000	As restated Company £'000
Cost and Net book value		
At 1 January 2004 as previously reported	1,282	30,935
Restatement (see Note 1(a))	(1,282)	(1,282)
At 1 January 2004 as restated and as at 31 December 2004	-	29,653

Principal subsidiaries

Name	Ownership	% ownership	Class of shares held	Place of incorporation
ITNET UK Limited	Direct	100	Ordinary	England
Technosys Limited	Direct	100	Ordinary	England
The French Thornton Partnership Limited	Indirect	100	Ordinary	England

14 Fixed assets - Investments (continued)

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. The principal activity of the company was knowledge management and the delivery of e-commerce solutions. On 30 June 2001 the trade of the company was transferred to ITNET UK Limited and the company became dormant.

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 French Thornton is consultancy. On 2 April 2002 there was a reduction of £750,000 in the cost of investment due to the movement in the ITNET share price and the subsequent impact upon the French Thornton earn-out agreement. On 16 August 2002 the share capital of The French Thornton Partnership was transferred from ITNET plc to ITNET UK Limited at a book value of £14,687,000. On 27 May 2003 there was a reduction in the cost of investment due to loan notes that were not issued.

On 20 March 2000 ITNET plc issued 600,000 shares to a Quest trustee company in relation to SAYE options issued to employees and issued a further 4,189 shares on 16 December 2004. Dividends on these shares have been waived. During 2003 the QUEST transferred 174,199 shares to employees under the Sharesave scheme. In 2004 a further 428,515 shares were transferred to employees. The QUEST has been consolidated into ITNET plc as it has de facto control of the assets held by the trust and bears the risks and rewards of ownership.

On 27 January 2003 ITNET plc acquired 50% of the share capital of Peterborough GIS Limited, a company registered in England. The company has not yet commenced trading. This is a joint venture with Group 4 Falck Joint Ventures Limited.

On 30 January 2004 the Quest gave 50,000 shares to the Share Incentive Plan in respect of matching shares for the scheme. As the shares do not vest unconditionally with employees until the end of the 5-year qualifying period they have been consolidated into ITNET plc as it has de facto control until the end of that period.

The Directors do not consider that there has been any diminution in value of these investments since 31 December 2004.

15 Stocks and work in progress

	2004 £'000	2003 £'000
Work in progress	4,089	4,706
Consumables	-	19
	4,089	4,725

16 Debtors

	2004 Group £'000	2004 Company £'000	2003 Group £'000	2003 Company £'000
Debtors due within one year				
Trade debtors	21,425	-	22,801	-
UK Corporation Tax	-	-	-	-
Deferred tax (see Note 20)	575	1	32	29
Prepayments	3,981	-	1,458	-
Amounts recoverable on contracts	4,415	-	4,178	-
Amounts owed by subsidiary undertakings	-	22,494	-	25,933
	30,396	22,495	28,469	25,962
Debtors due in more than one year				
Amounts recoverable on contracts	10,398	-	6,773	-
Deferred tax (see Note 20)	2,389	-	631	-
	12,787	-	7,404	-

The fair value of debtors is £37,823,000 (2003: £34,234,000).

17 Assets held for resale

	2004 Group £'000	2004 Company £'000	2003 Group £'000	2003 Company £'000
Assets held for resale	5,900	-	-	-

Assets held under finance leases within assets held for resale included above are at cost of £7,180,892 (2003: £Nil) and accumulated depreciation of £1,280,892 (2003: £Nil).

18 Creditors - Amounts falling due within one year

	2004 Group £'000	2004 Company £'000	2003 Group £'000	2003 Company £'000
Loan notes - issued	100	100	600	600
Trade creditors	8,077	-	15,257	-
UK Corporation Tax	1,487	91	1,975	-
Other taxation and social security	5,683	-	6,896	-
Amounts due under finance leases	1,389	-	979	-
Accruals	14,750	22	14,772	52
Deferred income and contract payments on account	20,007	-	21,783	-
Dividends payable	40	40	2,163	2,163
	51,513	253	64,425	2,815

In 2004 £500,000 of loan notes were redeemed. 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.

19 Creditors - Amounts falling due after more than one year

	2004 Group £'000	2003 Group £'000
Finance leases	4,528	4,546
Falling due:		
Group	2004 £'000	2003 £'000
Between one and two years	1,449	1,067
Between two and five years	3,079	3,479
	4,528	4,546

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

The Group policy in relation to interest rate risk remains to borrow at floating rates related to LIBOR from counterparties approved by the Board. While loan and overdraft facilities remain in place, there were no bank borrowings as at 31 December 2004.

At 31 December, the Group had an option facility of £9,000,000. This included a maximum overdraft facility of £5,000,000 with the remaining facility available for bonds. The Group also had a revolving advance facility of £11,307,500 that expires in 2005.

The Group is not exposed to any significant foreign currency risks with any transactions arising settled at spot rates. The current level of transactions is minimal. Surplus cash balances are invested on overnight deposit rates based on LIBOR.

For total debt, including creditors due under one year, the interest rate profile is as follows:

	Fixed rate weighted average period years	Fixed rate weighted average interest rate %	Fixed borrowings £'000	Total 2004 £'000	Total 2003 £'000
Loan notes - issued	0.50	5.25	100	100	600
Finance leases	5.00	2.25	5,917	5,917	5,525
			6,017	6,017	6,125

20 Deferred tax

Deferred tax asset at 30% (2003: 30%) is as follows:	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Accelerated capital allowances	2,389	-	631	-
Short-term timing differences	575	1	18	15
Losses	-	-	14	14
	2,964	1	663	29

The movement on the deferred tax asset is as follows:

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Provision at start of year	663	29	1,582	222
Profit and loss credit / (charge)	2,301	(28)	(919)	(193)
Provision at end of year	2,964	1	663	29

21 Provisions for liabilities and charges

	Group £'000
At 1 January 2004	500
Created in the year	8,473
Released in the year	(500)
Utilised in the year	(4,123)
At 31 December 2004	4,350

Provisions for liabilities and charges have increased by £8,473,000 to cover estimated exit costs from the Cabinet Office contract in addition to related impairments of fixed assets and work in progress. The costs provided include estimated committed mediation costs, redundancy costs, cancellation of maintenance agreements and termination of the data centre operating lease (see Note 29).

The £500,000 provision in respect of the London Borough of Hackney was released in the year.

22 Called-up share capital

	Called up, allotted and fully paid 2004 £'000	Called up, allotted and fully paid 2003 £'000
Group and Company	2004 £'000	2003 £'000
Equity:		
Ordinary shares of 10p each	10,584	7,346
	10,584	7,330

22 Called-up share capital (continued)

Allotment of shares

Since 1 January 2004 new ordinary shares of 10p each have been issued as follows:

Purpose of issue	Number of shares	Price per share £	Valuation/proceeds £'000
Scrp dividend	130,194	2.94	382
Sharesave	272	2.53	1
Sharesave	4,189	1.48	6
Executive share options	32,500	2.22	72

Details of Sharesave Options granted to employees under the Employee Savings-related Share Option Scheme are as follows:

Date of grant	3 year options	5 year options	Number of shares under option	Exercise price £	Exercise date from	Exercise date to	Options outstanding at 31 Dec 2004 3 year options	Options outstanding at 31 Dec 2004 5 year options
2 September 1998	291,342	428,986	720,328	3.10	Sep 2001	Sep 2005	-	-
14 October 1999	158,075	105,605	263,680	3.77	Oct 2002	Oct 2006	-	19,242
10 November 2000	452,833	292,607	745,440	2.07	Nov 2003	Nov 2007	-	184,263
10 October 2001	446,238	303,422	749,660	1.48	Oct 2004	Oct 2008	36,247	213,818
8 October 2002	435,341	311,994	747,335	1.34	Oct 2005	Oct 2009	357,639	259,449
	1,783,829	1,442,614	3,226,443				393,886	676,772

Details of Share Options and Sharesave Options granted to the Executive Directors are included in the Remuneration Report.

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.

Following the acquisition of ITNET plc by Serco Group plc in February 2005, all share options either lapsed, were bought out or exercised.

23 Reserves

	Other reserves £'000	Profit and loss account £'000	Share premium £'000	Total £'000
Group				
At 1 January 2004 as previously reported	29	(10,186)	32,323	22,166
Restatement (see Note 1(a))	(29)	(1,253)	-	(1,282)
At 1 January 2004 as restated	-	(11,439)	32,323	20,884
Premium on issues of new share capital	-	-	445	445
Capitalisation of share premium account under Court arrangement	-	32,323	(32,323)	-
Proceeds from transfer of shares to employees by the QUEST	-	614	-	614
Loss for the year	-	(7,674)	-	(7,674)
At 31 December 2004	-	13,824	445	14,269
Company				
At 1 January 2004 as previously reported	29	14,417	32,323	46,769
Restatement (see Note 1(a))	(29)	(1,253)	-	(1,282)
At 1 January 2004 as restated	-	13,164	32,323	45,487
Premium on issues of new share capital	-	-	445	445
Capitalisation of share premium account under Court arrangement	-	32,323	(32,323)	-
Proceeds from transfer of shares to employees by the QUEST	-	614	-	614
Loss for the year	-	(1,957)	-	(1,957)
At 31 December 2004	-	44,144	445	44,589

The opening and closing Group profit and loss reserves are shown after the write off of £19,823,000 of goodwill (2003: £19,823,000) which relates to acquisitions prior to 1998.

During the year, following successful application to the Court, £32,323,000 of share premium was released to the profit and loss reserve and made available for distribution.

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

24 Reconciliation of movements in shareholders' funds

	2004 Group £'000	2004 Company £'000	As restated 2003 Group £'000	As restated 2003 Company £'000
(Loss)/profit after tax as previously reported	(6,607)	(890)	12,476	13,277
Restatement (see Note 1(a))	-	-	(462)	(462)
Profit after tax as restated	(6,607)	(890)	12,014	12,815
Dividends paid and proposed	(1,067)	(1,067)	(3,097)	(3,097)
Share capital issued and subscribed	16	16	21	21
Proceeds from transfer of shares to employees by the QUEST	614	614	29	29
Share premium account	445	445	343	343
Net (reduction in)/addition to shareholders' funds	(6,599)	(882)	9,310	10,111
Opening shareholders' funds	28,214	52,817	19,724	43,526
Restatement (see Note 1(a))	-	-	(820)	(820)
Closing shareholders' funds	21,615	51,935	28,214	52,817

25 Cash flow statement

(a) Net cash (outflow)/inflow from operating activities

	2004 £'000	As restated 2003 £'000
Operating profit before exceptional items and goodwill amortisation	13,795	17,237
Exceptional losses	(21,846)	-
Depreciation and impairment of tangible fixed assets	13,226	5,017
Amortisation and impairment of goodwill	804	1,159
Profit on disposal of tangible fixed assets	(3)	(7)
Increase in debtors	(5,009)	(5,258)
Decrease/(increase) in stocks	636	(3,603)
(Decrease)/increase in creditors and provisions	(4,094)	12,092
	(2,491)	26,637

(b) Returns on investments and servicing of finance

	2004 £'000	2003 £'000
Interest received	211	358
Interest paid	(127)	(137)
Interest element of finance lease rentals paid	(67)	(115)
	17	106

(c) Capital expenditure

	2004 £'000	2003 £'000
Payments to acquire fixed assets	(10,391)	(9,159)
Receipts from sale of tangible fixed assets	378	9
	(10,013)	(9,150)

(d) Financing

	2004 £'000	2003 £'000
Issue of ordinary share capital	461	364
Proceeds from transfer of shares to employees by the QUEST	614	364
Loan notes repaid	(500)	(1,025)
Capital element of finance lease repayments	(1,273)	(1,039)
	(698)	(1,336)

	At 1 January 2004 £'000	Cashflows £'000	New finance leases £'000	Loan note redemptions £'000	At 31 December 2004 £'000
Cash at bank and in hand	24,388	(17,853)	-	-	6,535
Loan notes	(600)	-	-	500	(100)
Finance leases	(5,525)	1,273	(1,665)	-	(5,917)
Total	18,263	(16,580)	(1,665)	500	518

26 Guarantees and other financial commitments

(a) Capital commitments

At the end of the year, capital commitments were:

	2004 Group £'000	2004 Company £'000	2003 Group £'000	2003 Company £'000
Contracted but not provided for	1,547	-	731	-

(b) Commitments under operating leases

At 31 December 2004 the Group had annual commitments under non-cancellable operating leases as set out below:

	2004 Property £'000	2003 Property £'000	2004 Other £'000	2003 Other £'000
Operating leases which expire:				
Within one year	-	102	124	277
In the second to fifth years inclusive	1,169	450	66	296
In more than five years	425	734	-	-
	1,594	1,286	190	573

The majority of the property leases are subject to rent reviews.

(c) Charges

Certain property and assets of the Group are subject to fixed and floating charges in favour of the Group's bankers.

26 Guarantees and other financial commitments (continued)
(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.

During the year, the Group had entered into a lease agreement for a site at Bedford where the data centre for the Cabinet Office was to be situated. Following the loss of the Cabinet Office contract, the lease was assigned to Marsh and MacLennan who now meet the full liability under the lease. The Group has guaranteed the performance of Marsh and MacLennan's obligations under the lease pending certain financial covenant conditions being met by the latter. The Group expects these conditions to be met. Where these conditions are met after 25 December 2006, the Group's lease will end and it will cease to have a direct contractual relationship with the landlord. In the period up to 25 December 2006, the Group is liable under the guarantee given should Marsh and MacLennan default in the payment of their rent or other obligations under the lease.

27 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 2002. The principal assumptions used for the calculations were that future investment returns prior to retirement would be 9.0% per annum, 8.0% per annum after retirement, salary increases of 6.0% per annum and price inflation of 4.0% per annum.

The market value of the Scheme's assets was £35,432,000 at the date of valuation, and was sufficient to cover 125% of the benefits that had accrued to members on the above assumptions. This funding level was equivalent to the level on the Minimum Funding Requirement (MFR) basis.

The Company contribution rate was 13% per annum of pensionable earnings for the Local Authority Section, 14% per annum of pensionable earnings for the Commercial Section and 2.5% per annum of pensionable earnings for the Supplementary Scheme.

The pension charge for the year is £2,873,000 (2002: £2,743,000).

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 schemes.

The total pension charge for the year is £3,472,000 (2002: £3,029,000).

FRS 17 valuation

The Company operates a defined benefits pension scheme in the UK, called ITNET Final Salary Pension Scheme. A full actuarial valuation was carried out at 1 April 2002 and updated to 31 December 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 Dec 2004	At 31 Dec 2003	At 31 Dec 2002
Rate of increase in pensionable salaries	3.75%	3.50%	3.75%
Rate of increase in pensions in payment (LPI)	2.75%	2.50%	2.25%
Discount rate	5.30%	5.50%	5.75%
Inflation assumption	2.75%	2.75%	2.25%

The assumptions noted above are consistent with those required under FRS 17 'Retirement benefits'. FRS17 requires that any surplus or deficit in 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.

The assets in the scheme and expected rates of return were:

	31 December 2004		31 December 2003		31 December 2002	
	Long-term expected rate of return %	Market value £'000	Long-term expected rate of return %	Market value £'000	Long-term expected rate of return %	Market value £'000
Equities	7.00%	36,797	8.00%	33,132	8.00%	24,130
Bonds	5.10%	9,234	5.25%	4,982	5.25%	5,396
Cash	4.50%	383	4.00%	1,900	4.00%	1,185
Total market value of assets		46,414		40,014		30,711
Present value of liabilities		(61,340)		(47,115)		(38,358)
Deficit in the Scheme		(14,926)		(7,101)		(7,647)
Related deferred tax asset at 30% (2003: 30%)		4,478		2,130		2,294
Net pension liability		(10,448)		(4,971)		(5,353)

	As restated	
	2004 £'000	2003 £'000
Net assets		
Net assets excluding pension liability	21,615	28,214
Net pension liability	(10,448)	(4,971)
Net assets including pension liability	11,167	23,243

27 Pension arrangements (continued)

	2004	As restated 2003
	£'000	£'000
Reserves		
Profit and loss reserves excluding pension liability	13,824	(11,439)
Net pension liability	(10,448)	(4,971)
Profit and loss reserves including pension liability	3,376	(16,410)

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

	2004	2003
	£'000	£'000
Current service cost	4,248	3,392
Total operating charge	4,248	3,392

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

	2004	2003
	£'000	£'000
Expected return on Pension Scheme assets	3,033	2,315
Interest on Pension Scheme liabilities	(2,682)	(2,294)
Other financing income	351	21

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

	2004	2003	2002
	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	1,131	4,308	(9,080)
Experience gains and losses arising on Pension Scheme liabilities	(171)	(287)	824
Changes in assumptions underlying the present value of the Scheme liabilities	(8,077)	(3,116)	(1,126)
Actuarial (loss)/gain recognised in the statement of recognised gains and losses	(7,117)	905	(9,382)

An analysis of the movement in surplus during the year is as follows:

	2004	2003
	£'000	£'000
Deficit in the Scheme at the beginning of the year	(7,101)	(7,647)
Current service cost	(4,248)	(3,392)
Contributions paid	3,189	3,012
Other financing income	351	21
Actuarial (loss)/gain	(7,117)	905
Deficit in the Scheme at the end of the year	(14,926)	(7,101)

A history of gains and losses experienced over the year would have been as follows:

	2004	2003
	£'000	£'000
Difference between the expected and actual return on Scheme assets:		
Amount	1,131	4,308
Percentage of Scheme assets	2%	11%
Experience gains and losses on Scheme liabilities:		
Amount	(171)	(287)
Percentage of present value of Scheme liabilities	0%	(1)%
Total actuarial (loss)/gain		
Amount	(7,117)	905
Percentage of present value of Scheme liabilities	(12)%	2%

28 Controlling Party

At 31 December 2004, the company had no single controlling party.

On 3 February 2005, Serco Group plc became the ultimate parent company and controlling party following the closing of its earlier offer to acquire the entire allotted and authorised share capital of ITNET plc.

29 Subsequent events

In July 2005, the e-Government Unit of the Cabinet Office and Serco Solutions Limited (formerly known as ITNET UK Limited) have settled the disputes arising from the data centre solutions contract known as the "True North" project. The settlement has been achieved amicably without any attribution of blame to either party.

The terms of the settlement are commercially confidential. The impact of the settlement is fully reflected in the exceptional loss and provision disclosed within these financial statements.