

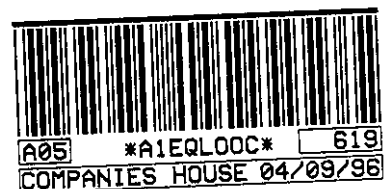
ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO, SC

Alcatel Business Systems Limited

Financial statements 31 December 1995
together with directors' and auditors' reports

Registered number: 2650571



Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 1995.

Principal activities

The principal activities of the company continue to be the distribution and maintenance of communications equipment manufactured by members of the Alcatel Alsthom group of companies as well as related products and services.

Review of business

Turnover for the year was £45,900,000 (1994 - £48,025,000) and the loss on ordinary activities amounted to £13,784,000 (1994 - £4,254,000).

The 4000 series of telephone equipment was successfully launched during the year and is expected to be developed further in 1996.

The company is in the process of reorganising its business to concentrate on core activities.

The directors are unable to propose a dividend.

Directors and their interests

The directors who served during the year are as shown below:

J.Y. Leclerc	(Chairman, resigned 4 January 1996)
M.A. Couzens	
P. Créau	(appointed 26 May 1995, resigned 29 December 1995)
H. Garin	(resigned 29 December 1995)
N.W. Horne	
H. Gibbs	(appointed 29 December 1995)
D. Wauters	(appointed 29 December 1995)
P. Janssens	(appointed 29 December 1995)

The directors who held office at 31 December 1995 had no interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Fixed assets

Information relating to changes in tangible fixed assets is given in note 9 to the financial statements.

Charitable and political contributions

The company contributed £1,445 (1994 - £1,820) to charities during the year.

Directors' report (continued)

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, and the company magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

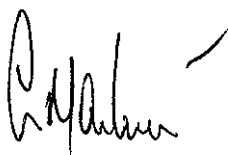
Directors' report (continued)

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Frimley Business Park
Camberley
Surrey
GU16 5SG

By order of the Board,

A handwritten signature in black ink, appearing to read 'S.L. Martin', with a long horizontal stroke extending to the right.

S.L. Martin
Secretary

29 April 1996

Auditors' report

London

To the Shareholders of Alcatel Business Systems Limited:

We have audited the financial statements on pages 5 to 22 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 circumstances of the company 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 at 31 December 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

29 April 1996

Profit and loss account

For the year ended 31 December 1995

	Notes	1995		1994	
		£'000	£'000	£'000	£'000
Turnover	2		45,900		48,025
Cost of sales					
- exceptional item	3	(1,534)		-	
- other cost of sales	3	(29,722)		(30,630)	
			(31,256)		(30,630)
Gross profit			14,644		17,395
Operating expenses (net)					
- exceptional item	3	(5,769)		-	
- other operating expenses (net)	3	(21,762)		(21,618)	
			(27,531)		(21,618)
Operating loss			(12,887)		(4,223)
Profit on disposal of fixed assets			97		190
Investment income	4		498		501
Interest payable and similar charges	5		(1,492)		(722)
Loss on ordinary activities before and after taxation	6		(13,784)		(4,254)
Profit and loss account, brought forward			(18,807)		(14,553)
Profit and loss account, carried forward			(32,591)		(18,807)

All operations of the company continued throughout both years and no operations were acquired or discontinued in the year.

There are no recognised gains and losses attributable to the shareholders of the company in either year other than the reported loss on ordinary activities after taxation.

The accompanying notes are an integral part of these statements.

Balance sheet

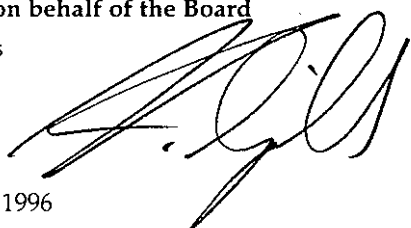
31 December 1995

	Notes	1995 £'000	1994 £'000
Fixed assets			
Intangible assets	8	25	55
Tangible assets	9	5,324	5,559
Investments	10	-	-
		<u>5,349</u>	<u>5,614</u>
Current assets			
Stocks	11	6,134	9,357
Debtors			
- amounts falling due within one year	12	18,035	14,738
- amounts falling due after more than one year	12	6,799	7,177
Cash at bank and in hand		607	925
		<u>31,575</u>	<u>32,197</u>
Creditors: Amounts falling due within one year	13	(39,825)	(30,615)
Net current (liabilities) assets		<u>(8,250)</u>	<u>1,582</u>
Total assets less current liabilities		<u>(2,901)</u>	<u>7,196</u>
Creditors: Amounts falling due after more than one year	14	(927)	(1,166)
Provisions for liabilities and charges	15	(5,525)	(1,599)
Net (liabilities) assets		<u>(9,353)</u>	<u>4,431</u>
Capital and reserves			
Called-up equity share capital	16	32,000	32,000
Other reserves	17	(8,762)	(8,762)
Profit and loss account	17	(32,591)	(18,807)
Shareholders' funds	18	<u>(9,353)</u>	<u>4,431</u>

Signed on behalf of the Board

H. Gibbs

Director



29 April 1996

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

Notes to financial statements

1 Preparation of group financial statements and accounting policies

Alcatel Business Systems Limited is exempt from the obligation to prepare and deliver group financial statements for itself and its subsidiary undertakings because at the end of the financial year it was a wholly-owned subsidiary undertaking of Alcatel Alsthom Compagnie Générale d'Electricité ("Alcatel Alsthom") incorporated in France, whose annual report and financial statements are drawn up and audited in accordance with French Law and the provisions of the Seventh Directive.

The consolidated financial statements of Alcatel Alsthom include the financial statements of the company and contain a cash flow statement; accordingly the company is exempt under the provisions of Financial Reporting Standard No. 1 from presenting its own cash flow statement.

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. Assets and liabilities are recognised in the accounts where, as a result of past transactions or events, the company has rights or other access to future economic benefits, or obligations to transfer economic benefits.

b) Tangible fixed assets

Fixed assets are shown at original historical cost net of accumulated depreciation.

Depreciation is provided on all fixed assets, other than freehold land, to write off the cost of the asset, less estimated residual value, on a straight-line basis over its estimated useful life, as follows:

Freehold buildings	35 years
Leasehold improvements	lease term
Plant and equipment	3 to 5 years
Rental assets	3 to 5 years
Motor vehicles	4 years

c) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less amounts written off. Provisions are made for permanent reductions in value. Provisions for temporary fluctuations in value are not made.

Notes to financial statements (continued)

1 Preparation of group financial statements and accounting policies (continued)

d) Stocks

Finished goods stock is stated at the lower of cost, calculated on a first-in first-out basis, and net realisable value, based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Spares stock is used by the company to meet obligations under service maintenance contracts and warranty agreements and is stated at cost, calculated on a first-in first-out basis, less provisions. Provisions are made to reflect the ageing of the spares stock and for obsolete, slow-moving or defective items, where appropriate.

e) Research and development

Research and development costs are written off as incurred.

f) Foreign currencies

Transactions denominated in foreign currencies are recorded in sterling at either the rates ruling at the dates of the transactions or, where appropriate, at the forward exchange contract rates. Gains or losses are reported in the profit and loss account to reflect changes in exchange rates subsequent to the date of the transaction.

Monetary assets and liabilities which are denominated in foreign currencies at the year-end are translated at the rates of exchange ruling at the year-end or, where appropriate, at the related forward exchange contract rates, and resulting gains or losses are reported in the profit and loss account.

g) Taxation

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

The taxation liabilities of certain group undertakings are reduced wholly or in part by the surrender of losses by fellow group undertakings. The tax benefits arising from group relief are not recognised in the financial statements of the surrendering companies.

Deferred taxation (which arises from differences in the timing of the recognition of items in the financial statements and by the tax authorities) has been calculated on the liability method and is provided on timing differences which will probably reverse, at the rates of tax expected to prevail at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, are unlikely to reverse.

h) Lease accounting

Lessee:

The company enters into operating and finance leases.

Assets held under operating leases are not reported in the balance sheet. Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Notes to financial statements (continued)

1 Preparation of group financial statements and accounting policies (continued)

h) Lease accounting (continued)

Rental assets held under finance leases are initially reported at the present value of the minimum lease payments at the inception of the lease with an equivalent liability categorised under creditors falling due within one year and after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance charges and reduction of liability.

Lessor:

Finance lease receivables are amortised over the period for which they are receivable on a basis calculated to give an approximately constant rate of return on the net cash investment. The total net investment included in the balance sheet represents total lease payments receivable net of finance charges relating to future accounting periods.

Hire purchase receivables are amortised over the period for which they are receivable on the "sum of digits" basis.

i) Turnover

Turnover comprises the value of sales and services provided during the year (net of credits, allowances and value added tax).

Revenues from service maintenance contracts which are invoiced in advance are deferred to the future period to which they relate.

j) Pension costs

The company provides pension benefits based on final pensionable pay (defined benefit scheme). The assets of the scheme are held independently of the company by trustees.

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working lives of scheme members.

Any difference between amounts charged to the profit and loss account and contributions paid to independent pension schemes is shown as a separately identified liability or asset in the balance sheet (see note 19d).

Notes to financial statements (continued)

2 Segment information

Contributions to turnover were as follows:

	1995 £'000	1994 £'000
By activity:		
Sale and maintenance of communication equipment	39,248	39,555
Office products	6,652	8,470
	<u>45,900</u>	<u>48,025</u>
	£'000	£'000
By geographical destination:		
United Kingdom	41,981	42,926
North America	657	717
Europe	1,417	1,734
Rest of the world	1,845	2,648
	<u>45,900</u>	<u>48,025</u>

3 Cost of sales and operating expenses (net)

	1995 £'000	1994 £'000
Cost of sales	<u>31,256</u>	<u>30,630</u>
Selling and marketing costs	13,770	13,676
Research and development costs (net) (see note 6)	940	1,094
Administrative expenses	12,527	6,404
Other operating expenses	294	444
Operating expenses (net)	<u>27,531</u>	<u>21,618</u>

Included in cost of sales and administrative expenses is an exceptional item relating to the planned reorganisation of the business and disposal of operating units amounting to £1,534,000 (1994 - £nil) and £5,769,000 (1994 - £nil) respectively. These expenses are associated with staff redundancy, refurbishment, vacant property and asset write-downs (see notes 6, 11, 12 and 15).

Notes to financial statements (continued)

4 Investment income

	1995 £'000	1994 £'000
Interest received on corporation tax paid in advance	10	-
Interest on bank deposits	4	16
Pensions - imputed interest on prepayment (see note 19d)	484	485
	<u>498</u>	<u>501</u>

5 Interest payable and similar charges

	1995 £'000	1994 £'000
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	<u>1,492</u>	<u>722</u>

Included in the above is the interest element of charges payable under finance leases and hire purchase contracts amounting to £194,000 (1994 - £2,000). These amounts are payable by instalments.

6 Loss on ordinary activities before and after taxation

Loss on ordinary activities before and after taxation is stated after charging (crediting):

	1995 £'000	1994 £'000
a) Depreciation and amounts written off		
i) intangible fixed assets	30	128
ii) tangible fixed assets		
- owned (including an exceptional item of £444,000 (1994 - £nil))	1,532	1,142
- held under finance leases	874	641
b) Hire of plant and machinery under operating leases	53	163
c) Other operating lease rentals	1,246	1,242
d) Auditors' remuneration		
i) audit fees	94	88
ii) fees for non-audit services	63	167
e) Staff costs (see note 7)	15,024	14,248
f) Research and development	1,513	1,888
g) Charges (receipts) from other group undertakings		
i) contribution to local research and development	(1,580)	(1,871)
ii) charge for group research and development	1,007	1,077
iii) other management charges and commissions	<u>523</u>	<u>535</u>

The loss on ordinary activities before and after taxation is stated on the historical cost basis.

Notes to financial statements (continued)

7 Staff costs

The average weekly number of persons employed by the company during the year was as follows:

	1995 Number employed	1994 Number employed
Services	246	262
Sales and marketing	240	227
Research and development	25	28
Administration	76	91
	<u>587</u>	<u>608</u>

	£'000	£'000
Employee costs during the year amounted to:		
Wages and salaries	13,706	12,952
Social security costs	1,279	1,162
Pension costs (see also note 19d)		
- regular cost	1,494	1,301
- variations from regular cost	(1,455)	(1,167)
	<u>15,024</u>	<u>14,248</u>

Directors' remuneration:

Directors' remuneration was paid in respect of directors of the company as follows:

	£'000	£'000
Salaries	138	118
Other emoluments	4	4
	<u>142</u>	<u>122</u>

The directors' remuneration shown above (excluding pensions and pension contributions) included:

	1995 £	1994 £
Chairman and highest paid director	<u>83,085</u>	<u>83,641</u>

Notes to financial statements (continued)

7 Staff costs (continued)

No pension contributions were made for the directors in the year.

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1995 Number	1994 Number
£nil	6	3
£ 35,001 - £ 40,000	-	1
£ 55,001 - £ 60,000	1	-
£ 80,001 - £ 85,000	<u>1</u>	<u>1</u>

8 Intangible fixed assets

Intangible fixed assets represent the cost of maintenance contracts, whereby the company acquires the right to perform and bill maintenance to the customer. The cost of these maintenance contracts is amortised over a three year period.

The movement in the year was as follows:

	£'000
Cost	
Beginning of year	428
Contracts expired	(387)
End of year	<u>41</u>
Amounts written off	
Beginning of year	373
Written off	30
Contracts expired	(387)
End of year	<u>16</u>
Net book value	
Beginning of year	<u>55</u>
End of year	<u>25</u>

Notes to financial statements (continued)

9 Tangible fixed assets

The movement in the year was as follows:

	Freehold buildings £'000	Leasehold improvements £'000	Plant and equipment and motor vehicles £'000	Rental assets £'000	Total £'000
Cost					
Beginning of year	48	914	11,141	24	12,127
Additions	-	82	2,355	-	2,437
Disposals	-	-	(1,030)	(22)	(1,052)
End of year	48	996	12,466	2	13,512
Depreciation					
Beginning of year	11	537	5,999	21	6,568
Charge	-	86	2,317	3	2,406
Disposals	-	-	(764)	(22)	(786)
End of year	11	623	7,552	2	8,188
Net book value					
Beginning of year	37	377	5,142	3	5,559
End of year	37	373	4,914	-	5,324
Leased assets included in the above:					
Net book value					
Beginning of year	-	-	2,746	-	2,746
End of year	-	-	2,250	-	2,250

Notes to financial statements (continued)

10 Fixed asset investments

The company has no direct investments in trading companies. Disclosure of investments which were dormant or non trading during the year has been omitted in order to avoid a statement of excessive length.

The cost of all fixed asset investments has been written off in prior years.

11 Stocks

The following are included in the net book value of stocks:

	1995 £'000	1994 £'000
Spares	2,513	3,165
Finished goods	3,621	6,192
	<u>6,134</u>	<u>9,357</u>

Stock is stated after deducting exceptional provisions of £1,279,000 (1994 - £nil) for finished goods and £255,000 (1994 - £nil) for spares.

There is no material difference between the replacement cost of stocks and their carrying value.

Notes to financial statements (continued)

12 Debtors

	1995 £'000	1994 £'000
Amounts falling due within one year:		
Trade debtors (after deducting an exceptional provision of £351,000 (1994 - £nil))	12,920	10,502
Amounts owed by subsidiary undertakings	52	153
Amounts owed by other group undertakings	2,813	1,171
UK corporation tax recoverable	-	24
VAT	-	100
Net investment in finance lease agreements (see below)	758	1,074
Other debtors	447	499
Prepayments and accrued income	1,045	1,215
	<u>18,035</u>	<u>14,738</u>
Amounts falling due after more than one year:		
Net investment in finance lease agreements (see below)	954	1,733
Other debtors	8	52
Prepayments and accrued income		
- pensions (note 19d)	5,837	5,392
	<u>6,799</u>	<u>7,177</u>
Net investment in finance lease agreements:		
	1995 £'000	1994 £'000
Aggregate rentals receivable under finance lease agreements	1,948	3,300
Less: finance income allocated to future accounting periods	(236)	(493)
	<u>1,712</u>	<u>2,807</u>
Falling due within one year	<u>758</u>	<u>1,074</u>
Falling due after more than one year	<u>954</u>	<u>1,733</u>

Notes to financial statements (continued)

12 Debtors (continued)

	1995 £'000	1994 £'000
Investment in finance leases during the year	<u>131</u>	<u>212</u>

Gross earnings under financing agreements included in turnover are as follows:

	£'000	£'000
Aggregate rentals received under finance leases	1,365	2,301
Less: capital repayments	<u>(1,226)</u>	<u>(2,156)</u>
Gross earnings	<u>139</u>	<u>145</u>

13 Creditors: Amounts falling due within one year

	1995 £'000	1994 £'000
Obligations under finance leases and hire purchase contracts	944	1,076
Bank loans and overdrafts, unsecured	14,201	17,407
Trade creditors	3,913	4,589
Bills of exchange payable, unsecured	11,000	-
Amounts owed to subsidiary undertakings	683	717
Amounts owed to other group undertakings	610	754
Other creditors		
- social security and PAYE	525	468
- other creditors	382	309
Accruals and deferred income	<u>7,567</u>	<u>5,295</u>
	<u>39,825</u>	<u>30,615</u>

Notes to financial statements (continued)

14 Creditors: Amounts falling due after more than one year

	1995 £'000	1994 £'000
Loan	15	31
Obligations under finance leases repayable between 2 and 5 years	912	1,135
	<u>927</u>	<u>1,166</u>

The loan is payable by Digital Distribution Limited, a subsidiary undertaking, and guaranteed by the company. Since Digital Distribution Limited has no assets, the company has undertaken to meet the loan repayments as they fall due. The loan is repayable by sixteen instalments payable at half year intervals commencing 30 April 1990. Interest is charged at 2.5% above LIBOR.

There are no finance lease obligations falling due after more than 5 years.

15 Provisions for liabilities and charges

	1995 £'000	1994 £'000
Provision for reorganisation	1,587	-
Provision for warranties	108	108
Other provisions	3,830	1,491
	<u>5,525</u>	<u>1,599</u>

The movement in provision for reorganisation is as follows:

	£'000
Beginning of the year	-
Charged to profit and loss account (exceptional items)	1,907
Utilised during the year	(320)
End of the year	<u>1,587</u>

Notes to financial statements (continued)

15 Provisions for liabilities and charges (continued)

The movement in other provisions is as follows:

	Contract settlement costs £'000	Vacant property provision £'000	Total £'000
Beginning of year	1,001	490	1,491
Charged to profit and loss account (exceptional item)	-	3,067	3,067
Released to profit and loss account	(301)	-	(301)
Utilised during the year	(199)	(228)	(427)
End of year	<u>501</u>	<u>3,329</u>	<u>3,830</u>

16 Called-up equity share capital

	1995 £'000	1994 £'000
<i>Authorised, allotted, called-up and fully-paid</i>		
32,000,000 (1994 - 32,000,000) ordinary shares of £1 each	<u>32,000</u>	<u>32,000</u>

17 Reserves

	Share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Beginning of year	32,000	(8,762)	(18,807)	4,431
Retained loss for the financial year	-	-	(13,784)	(13,784)
End of year	<u>32,000</u>	<u>(8,762)</u>	<u>(32,591)</u>	<u>(9,353)</u>

Other reserves comprises the cumulative amount of goodwill written-off resulting from acquisitions in previous years.

18 Reconciliation of movement in shareholders' funds

	1995 £'000	1994 £'000
Loss for the financial year	(13,784)	(4,254)
Net reduction in shareholders' funds	<u>(13,784)</u>	<u>(4,254)</u>
Opening shareholders' funds	4,431	8,685
Closing shareholders' funds	<u>(9,353)</u>	<u>4,431</u>

Notes to financial statements (continued)

19 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	1995 £'000	1994 £'000
Contracted for but not provided	51	160
Authorised but not contracted	407	316
	<u>458</u>	<u>476</u>

b) Contingent liabilities

The company has a number of interest rate swap agreements relating to loans formerly payable by the company which were transferred to a third party. Full provision of £165,000 (1994 - £365,000) has been made for the company's estimated exposure. However, the actual exposure is dependent on future movements in interest rates.

The company has provided to its banks an unlimited guarantee in favour of its subsidiaries as part of group banking agreements that allow the group's accounts to be set-off.

The company has provided a £1,000,000 guarantee to Royal Mail in respect of franking machines sold and serviced before the demerger of the franking machine business in 1992.

c) Lease commitments

At 31 December 1995 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1995 £'000	1994 £'000
Expiring within 1 year	12	34
Expiring between 2 and 5 years	215	216
Expiring after 5 years	1,108	1,057
	<u>1,335</u>	<u>1,307</u>

d) Pension arrangements

The company operates a defined benefit pension scheme for the majority of its employees which was formed by the merger of three separate schemes. The assets of the scheme are held in a separate trustee administered fund. There is no self investment in the scheme.

The pension cost relating to the scheme is assessed in accordance with the advice of independent qualified actuaries and employer's contributions to the schemes are paid as recommended by the actuaries. Employees' normal contributions are paid to the scheme.

Notes to financial statements (continued)

19 Guarantees and other financial commitments (continued)

d) Pension arrangements (continued)

The cost of providing pensions is spread over the employees' working lives. The cost charged to the profit and loss account in any year may not always equal the employer's contributions to the scheme.

The scheme is valued at regular intervals, usually triennially. An actuarial valuation of the merged scheme was carried out at 30 June 1994. The main actuarial assumptions were that the investment return would be 9% per annum, salary increases would average 7% per annum, and future pensions would increase by 4% per annum.

The projected unit method was used both for the funding of the scheme and in assessing pension costs for accounting purposes. Members retiring are assumed to be replaced by new entrants so that the average age of the membership remains constant.

The actuarial valuation showed that the market value of the scheme's assets was £68,443,000, and the actuarial value was sufficient to cover 150% of the value of benefits accrued to members after allowing for expected future increases in earnings. Having regard to the size of the surplus, the actuaries advised that no company contributions need be paid into the scheme for the foreseeable future. For accounting purposes, the benefit of the surplus is being spread over the remaining service lives of the relevant employees. This pension cost variation arising from the amortisation of the surplus at present exceeds the regular pension cost resulting in a prepayment in the balance sheet on which interest income is imputed (see notes 4, 7 and 12).

The actuarial assessment of the regular pension cost was £1,494,000 (1994 - £1,301,000) for the year. This cost was offset by the pension variation of £1,455,000 (1994 - £1,167,000) and imputed interest of £484,000 (1994 - £485,000) on the prepayment, which amounted to £5,837,000 (1994 - £5,392,000) at 31 December 1995. The total pension credit for the year was £428,000 (1994 - £351,000).

During 1996 it is expected that a number of improvements will be made to the benefits provided by the scheme and contributions from employees other than the company who participate in the scheme will be reduced or suspended. Had these changes been implemented in 1995 the pension credit would have been reduced by £170,000.

20 Ultimate parent company

The company is a subsidiary undertaking of Alcatel Alsthom Compagnie Générale d'Electricité ("Alcatel Alsthom"), incorporated in France.

The smallest and largest group of which Alcatel Business Systems Limited is a member and for which group financial statements are drawn up is that headed by Alcatel Alsthom.

Notes to financial statements (continued)

20 Ultimate parent company (continued)

The consolidated financial statements of this group are available to the public and may be obtained from the corporate offices at 54 rue La Boétie, 75382 Paris, Cedex 08, France.

As at 31 December 1995, the company has net current liabilities of £8,250,000 (1994 net current assets - £1,582,000) which included debtors falling due after more than one year of £6,799,000 (1994 - £7,177,000).

The company is dependent upon continued financial support from the group in order to continue operations.