

EDEXCEL FOUNDATION

**Statutory directors' report and group accounts
for the year ended 31 December 2003**



Registered in England and Wales No. 1686164
Registered Charity N° 286621

DIRECTORS' REPORT

The directors present their report and the group accounts for the year ended 31 December 2003.

Principal activities and future developments

The objects for which the company is established are to promote, develop and encourage the advancement of education.

On 30 May 2003 Edexcel Foundation sold its examinations business to a new entity, London Qualifications Limited. London Qualifications Limited is 75% owned by Pearson plc and 25% by Edexcel Foundation.

The directors have now chosen to focus their work on raising the profile and reputation of vocational or practical learning. Currently practical learning is devalued, preventing many from making appropriate learning choices and thus realising their potential.

A small team of employees has been recruited and they will work with a wide range of organisations and associates to stimulate change.

Result for the year

The group's net outgoing resources before investment asset disposals or revaluations for the year was £5.6m (2002 net incoming resources of £1.9m). After net investment gains of £5.7m (2002 losses of £3.7m) and a gain on disposal of discontinued operations of £19.4m (2002 : £Nil) the group's result was a surplus of £19.5m for the year (2002 deficit of £1.8m).

Reserves

The reserves of the group stand at £34.3m at the end of 2003 (2002 : £14.8m).

Edexcel needs to maintain reserves sufficient to ensure that it can meet its future objectives with regard to promoting vocational training. The Foundation is currently in the process of restructuring as a result of the sale of the examinations business. As part of this process a formal reserves policy will be developed to support the future role of the Foundation.

Investments

Edexcel's policy with regard to investments is to grow the capital in real terms whilst minimising the risk. Consequently Edexcel has adopted a low risk asset allocation with a view to achieving the market average. The Foundation is currently in the process of reviewing its investment policy. The target has been achieved since a change in the management of the investment funds in March 2002.

Employment policies

The Foundation is committed to positive policies to promote equality of opportunity in employment.

Corporate governance

Edexcel Foundation is a company limited by guarantee, governed by its memorandum and articles of association, and a registered charity. The directors are the trustees of the charity and they are also the members of the company.

The Board of the Foundation, which comprises the board of directors, exercises its powers to manage the business of the company through the Chief Executive. The Board considers it important to have effective procedures in place to ensure good practice in corporate governance. The Board has in place a Finance Committee which will address finance, investment and audit related issues. Members of the Board are indicated on page 2.

Edexcel Foundation Group Accounts

The Board meets 4 times per year and has ultimate responsibility for the company's activities. New members of the Board are selected to ensure that the membership reflects the broad interests of all the Foundation's stakeholders.

The Finance Committee reviews the adequacy of the group's audit arrangements and internal financial and management controls. The Committee is responsible for recommending the appointment of external auditors, monitoring the returns from and valuation of the long-term investment fund and recommending the appointment of long term investment fund advisors.

Risk management

The Board has identified the major risks facing the company and will review on a regular basis.

Other matters

The company's funds may not be distributed to its members.

Although it has the power to do so, the company does not rely, for the pursuit of its objectives, on significant help from volunteers (with the exception of its members) or donations.

Directors

Board members and directors	
J Garry Hawkes CBE	Chairman of Board
Graham G Able	
Dr Geoffrey M Copland	Resigned 22 May 2003
Richard A Davies	Resigned 22 January 2003
David J Horner	
Peter K Mitchell	
David A Segal	
Ruth Spellman	Resigned 22 May 2003
David J Lennan	
John C L Cox CBE	
Professor Chris R Husbands	
Dr Michael D Sanderson	
Lars McBride	Appointed on 23 March 2004
Director and Chief Executive	
John Kerr	Resigned 4 July 2003

- Notes
1. All directors served throughout the year except where indicated in the notes below.
 2. All directors, other than the previous Chief Executive, are non-executive directors.
 3. The directors of the company, other than the previous Chief Executive, are also its members.
 4. The current Chief Executive, Andrew Powell, is not a Director of the company. He was appointed on 1 October 2003.

Edexcel Foundation Group Accounts

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them on a consistent basis;
- make judgements and estimates that are prudent and reasonable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is not appropriate 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Company number and Charity number

The company registration number is 1686164 and the registered charity number is 286621.

Company advisers

Bankers

National Westminster Bank Plc
Tavistock Square Branch
Tavistock Square
London WC1H 9XA

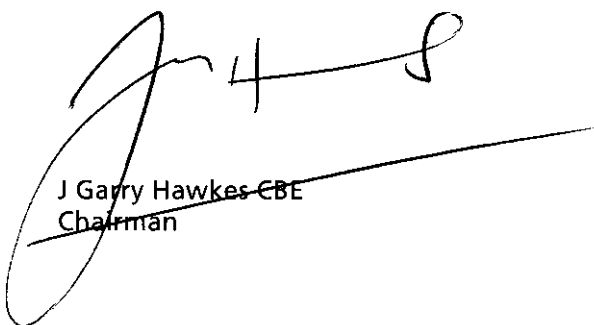
Solicitors

Russell-Cooke Solicitors
2 Putney Hill
Putney
London SW15 6AB

Auditors

KPMG LLP were re-appointed as auditors on 22 May 2003. A resolution to re-appoint KPMG LLP as auditors and to authorise the Audit Committee to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



J Garry Hawkes CBE
Chairman

Registered Office

Stewart House
32 Russell Square
London WC1B 5DN

22 June 2004

Report of the Independent Auditors, KPMG LLP, to the members of Edexcel Foundation

We have audited the financial statements on pages 5 to 26.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company and the group as at 31 December 2003 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
Chartered Accountants and Registered Auditor

1 Forest Gate
Brighton Road
Crawley, West Sussex
RH11 9PT

Statutory Report and Accounts
Year Ended 31 December 2003

FS03/Foundation 2003

30 July 2004

Group Statement of Financial Activities
For the year ended 31 December 2003

		Discontinued activities	Continued activities	Total unrestricted	Total unrestricted
	Note	2003 £'000	2003 £'000	2003 £'000	2002 £'000
INCOME AND EXPENDITURE					
INCOMING RESOURCES					
Fees receivable	3	30,663	-	30,663	102,764
Sundry income	3	3,092	-	3,092	8,454
Short term interest		-	395	395	290
Income from investment assets	4	-	1,912	1,912	690
		<u>33,755</u>	<u>2,307</u>	<u>36,062</u>	<u>112,198</u>
Total incoming resources					
RESOURCES EXPENDED					
Charitable expenditure: Costs of activities in furtherance of the charity's objects					
Educational costs		32,817	-	32,817	94,833
Research & development		2,467	-	2,467	5,445
Marketing & publicity		617	-	617	1,667
Management and administration		3,488	94	3,582	7,324
		<u>39,389</u>	<u>94</u>	<u>39,483</u>	<u>109,269</u>
Total resources expended	5				
		<u>39,389</u>	<u>94</u>	<u>39,483</u>	<u>109,269</u>
Net (outgoing)/incoming resources before investment asset disposals / revaluations		(5,634)	2,213	(3,421)	2,929
Gain on disposal of discontinued operations	7	19,431	-	19,431	-
Net gains / (losses) on Investments assets		-	3,531	3,531	(4,734)
		<u>19,431</u>	<u>3,531</u>	<u>19,431</u>	<u>(4,734)</u>
Net movements in fund		<u>13,797</u>	<u>5,744</u>	<u>19,541</u>	<u>(1,805)</u>
Fund balances brought Forward at 1 January	8			14,773	16,578
				<u>14,773</u>	<u>16,578</u>
				<u>34,314</u>	<u>14,773</u>

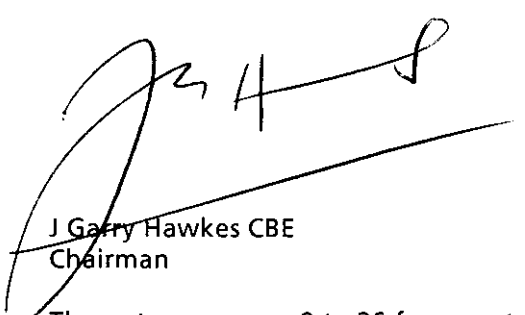
There were no recognised gains and losses other than contained in the above net (outgoing)/incoming resources before investment asset disposals/revaluations for the period. The retained net (outgoing)/incoming resources before investment asset disposals/revaluations represents the deficit for the year for Companies Act purposes. All funds are unrestricted.

The notes on pages 9 to 26 form part of the financial statements.

Group Balance Sheet
At 31 December 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9	-			350
Tangible assets	10	2			15,468
Investments	11	33,148			21,083
		<u>33,150</u>			<u>36,901</u>
Current assets					
Stock	12	-		217	
Debtors & prepayments	13	292		8,683	
Cash at bank and in hand		924		5,734	
		<u>1,216</u>		<u>14,634</u>	
Creditors					
Amounts falling due within one year	14	(52)		(23,289)	
Deferred income	15	-		(13,206)	
		<u>-</u>		<u>(36,495)</u>	
Net current liabilities			1,164		(21,861)
Total assets less current liabilities			<u>34,314</u>		<u>15,040</u>
Provisions for liabilities and charges	16	-			(267)
Net assets			<u>34,314</u>		<u>14,773</u>
Unrestricted fund	8		<u>34,314</u>		<u>14,773</u>

These financial statements were approved by the Board on 22 June 2004 and signed on its behalf by:



J Garry Hawkes CBE
Chairman

The notes on pages 9 to 26 form part of the financial statements.

Company Balance Sheet
At 31 December 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9	-		350	
Tangible assets	10	2		15,468	
Investments	11	43,377		21,037	
			43,379		36,855
Current assets					
Stocks	12	-		217	
Debtors & prepayments	13	292		8,683	
Cash at bank and in hand		924		5,734	
			1,216		14,634
Creditors					
Amounts falling due within one year	14	(52)		(23,289)	
Deferred income	15	-		(13,206)	
Net current liabilities			1,164		(21,861)
Total assets less Current liabilities			44,543		14,994
Provisions for liabilities and charges	16	-		(267)	
Net assets			44,543		14,727
Unrestricted fund	8		44,543		14,727

The notes on pages 9 to 26 form part of the financial statements.

Edexcel Foundation Group Accounts

**Group Cash Flow Statement
for the year ended 31 December 2003**

	Note	2003 £'000	2002 £'000
Net cash inflow from operations	20	31,036	9,941
Returns on investment and servicing of finance	20	393	870
Capital expenditure	20	(16,476)	1,019
Acquisitions and disposals	20	(19,563)	-
Net cash (inflow) / outflow before use of liquid resourcing and financing		(4,610)	11,830
Management of liquid resources	20	900	(2,000)
(Decrease) / increase in cash		(3,710)	9,830

Notes to the accounts

1 Basis of accounting

These accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards. The accounts meet the accounting and disclosure requirements of the Companies Act 1985, and comply with the Statement of Recommended Practice "Accounting and Reporting by Charities" published in October 2000.

The majority of the accounting policies listed below refer to discontinued business activities.

2 Accounting policies

a. Fees receivable and sundry income

Fees receivable and sundry income represents income receivable from the provision of examination, consultancy and contract services.

Vocational and academic registration fees are normally recognised when they become due at the beginning of the second term of the academic year. Sundry income is recognised on an accruals basis. Income receivable from certain examinations has been deferred where it relates to provision of services not yet undertaken.

b. Cost of examinations

The costs of preparing examinations, including research and development costs, are written off as incurred. Costs of conducting examinations are recognised in the year the examination takes place.

c. Depreciation and impairment

Depreciation is charged on a straight line basis over three years for computer and certain other equipment and over five years for other fixed assets. Leasehold assets are depreciated over the term of the lease. Goodwill is amortised over five years. Freehold land is not depreciated and the freehold land is depreciated over 50 years.

Where it has been identified that the recoverable amount of a fixed asset is below its book value the asset is written down to its recoverable amount and the impairment loss recognised in the income and expenditure account.

d. Consolidation

The consolidated financial statements have been prepared for the Foundation and its wholly owned subsidiaries Edexcel Enterprises Ltd and IHCD Health & Care Ltd and its associate London Qualifications Ltd. Fixed asset investments are shown at cost less provision for impairment in value. In the group's accounts the investment in the associated undertaking is accounted for using the equity method. The consolidated Statement of Financial Activities includes the group's share of this undertaking's profit less losses while the group's share of the net liabilities of the associated undertaking is shown in the consolidated balance sheet.

No separate Statement of Financial Activities has been presented for the company alone as permitted by Section 230 of the Companies Act 1985 and paragraph 304 of the Statement of Recommended Practice "Accounting and Reporting by Charities" October 2000.

e. Pension costs and other post-retirement benefits

Prior to the disposal of the examinations business the company participated in a number of pension funds. The company participated in four funded defined benefit schemes which were all valued externally every 3 years by professionally qualified and independent actuaries using the Projected Unit Method.

The company participated in one defined contribution scheme for which the amount charged to the statement of financial activities was the contributions payable in the year.

Accounting policies (continued)

Contributions to personal pension schemes on behalf of individual employees are charged to the statement of financial activities in the year to which they relate. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

f Leased assets

- i. Where the risks and rewards of ownership (other than title) of assets acquired under lease agreements pass to the lessee, the asset is recorded as a fixed asset at the fair value at the date of acquisition with amounts due to the lessor (net of finance charges) reflected as a creditor. The excess of amounts due to the lessor over the fair value of the asset at the date of the original purchase is reflected as a finance charge and is written off over the life of the lease.
- ii. Operating lease costs are charged to the statement of financial activities on a straight line basis over the lease term.

g Stocks

Stock is valued at the lower of cost and net realisable value.

h. Acquisition accounting.

Acquisitions are accounted for under the acquisition method with goodwill, representing the difference between the fair value of the consideration and the fair value of the identifiable assets and liabilities acquired, being amortised through the profit and loss account over the directors estimate of its useful life. Negative goodwill is credited to capital funds.

Where the company contributes a business, or other non-monetary asset for an interest in a subsidiary, joint venture or associate, such transactions are recorded so that the reduction in ownership of the business being contributed is accounted for as a disposal while the increased interest in the enlarged group or new interest in the business contributed by other parties to the transaction are accounted for as an acquisition. Fair values are applied to those operations which are subject to the exchange and which have not previously been held within the group.

i. Foreign exchange

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Statement of Financial Activities. Transactions denominated in foreign currencies are recorded at the actual exchange rates ruling as at the date of the transaction.

j. Cost allocation

The company's operating costs up to the date of the sale of the examinations business include staff, examiners, verifiers and other related costs. Such costs are allocated between education, research & development, marketing & publicity and management & administration. All directly attributable costs are charged to the appropriate departments, property and IT costs are apportioned on the bases of space and resources used respectively.

k. Valuation of long-term investments

To comply with the October 2000 Statement of Recommended Practice for Charities the investments are valued at market value.

3 Fees receivable and sundry income

	2003 £'000	2002 £'000
Registration & other fee income for the year	28,346	104,316
Movement of deferred income (see note 15)	2,317	(1,552)
	30,663	102,764
Sundry income (see below)	3,092	8,454
	33,755	111,218

Sundry income comprises:

	2003 £'000	2002 £'000
Income from contracts	874	2,908
Sales of publications	567	1,386
Professional courses	914	3,002
Other	737	1,158
	3,092	8,454

4 Income from investment assets

	2003 £'000	2002 £'000
Income receivable from other fixed asset investments	558	571
Share of associated undertaking profit	1,354	119
	1,912	690

5 Resources expended

	Staff costs £'000	Other costs £'000	Depreciation £'000	Total 2003 £'000	Total 2002 £'000
Educational	8,891	23,154	772	32,817	94,833
Research & development	1,556	818	93	2,467	5,445
Marketing and publicity	505	96	16	617	1,667
	<u>10,952</u>	<u>24,068</u>	<u>881</u>	<u>35,901</u>	<u>101,945</u>
Management & administration	<u>1,733</u>	<u>1,742</u>	<u>107</u>	<u>3,582</u>	<u>7,324</u>
	<u>12,685</u>	<u>25,810</u>	<u>988</u>	<u>39,483</u>	<u>109,269</u>

Other costs included in the above

	2003 £'000	2002 £'000
Auditor's remuneration		
Audit fees (including VAT)	14	51
Non audit fees (including VAT)	125	41
Operating lease rentals		
Land & buildings	565	1,352

The non audit fees relate to advice provided in relation to the disposal of the examinations business to London Qualifications Ltd.

6 Staff costs

	2003 £'000	2002 £'000
Wages & salaries	10,655	25,855
Social security costs	1,032	2,140
Other pension costs	<u>998</u>	<u>1,840</u>
	<u>12,685</u>	<u>29,835</u>

6 Staff costs (continued)*Directors' remuneration*

	2003 £'000	2002 £'000
Chairman		
Garry Hawkes – emoluments	35	31
	35	31
Chief Executive		
Andrew Powell		
Emoluments	15	-
Contributions to pension scheme	1	-
	16	-
John Kerr		
Emoluments	93	131
Contributions to pension scheme	3	9
	96	140
Total	147	171

John Kerr was remunerated by the Foundation until 30 May 2003, although he remained as the Chief Executive until 4 July 2003. Andrew Powell was appointed as Chief Executive on 1 October 2003.

David A. Segal was a partner in Berwin Leighton Paisner until 30 April 2003. Berwin Leighton Paisner acted as the charity's legal advisers until December 2003 and which invoiced fees for professional services to the company to 20 April 2003 of £67,000 inclusive of VAT (2002 : £247,000) in respect of the financial period. Invoices detailing the services provided by Berwin Leighton Paisner are settled through the normal company procedures.

No other director received any remuneration or was a member of any pension scheme. Members received reimbursement of their out of pocket expenses totalling £2,302.

The average monthly numbers of full-time staff were:

	2003 No.	2002 No.
Management	7	7
Research & development	75	65
Operational	678	649
Administration and support services	73	71
	833	792

All staff relate to discontinued activities. The figures for 2003 are for the 5 month period to 30 May 2003. Since 30 May 2003 the only employee is the Chief Executive who was employed on 1 October 2003.

6 Staff costs (continued)

The numbers of staff who received emoluments of £50,000 or more, in the following bandings, were as follows:

	2003 No.	2002 No.
£50,001 - £60,000	-	23
£60,001 - £70,000	4	7
£70,001 - £80,000	1	1
£80,001 - £90,000	-	1
£90,001 - £100,000	-	2
£100,001 - £110,000	-	2

The number of staff who received emoluments of £50,000 or more excludes the Chief Executive.

7 Gain on Disposal

On 30 May 2003 Edexcel disposed of its qualification business to a new entity, London Qualifications Limited. London Qualifications Limited is 75% owned by Pearson plc and 25% by Edexcel Foundation. This resulted in a gain on the disposal of discontinued operations of approximately £19.5 million.

Put and Call Options exist within the Shareholders Agreement such that either Pearsons plc or Edexcel Foundation can buy or sell respectively the 25% share currently owned by Edexcel Foundation in London Qualifications Ltd. The Options are exercisable by either part between 1 April and 1 May from 2007 and 2011 inclusive at the purchase price as calculated according to the provisions in the shareholders agreement.

The options are exercisable on any day between 1 April and 1 May from 2007 to 2011 inclusively. The Shareholders Agreement also sets out in detail the calculation of the purchase price.

8 Unrestricted funds

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
At 1 January	14,773	16,578	14,727	16,578
Net incoming/(outgoing) resources before investment asset disposals/revaluations	19,541	(1,805)	29,816	(1,851)
At 31 December	34,314	14,773	44,543	14,727

9 Intangible fixed assets – group & company

	Goodwill £'000
Cost	
At 1 January 2003	853
Disposals	(853)
At 31 December 2003	-
Amortisation	
At 1 January 2003	503
Provided during the year	71
Disposals	(574)
At 31 December 2003	-
Net book value	
At 31 December 2003	-
At 31 December 2002	350

10 Tangible fixed assets – group and company

	Freehold Property £'000	Computer equipment £'000	Other office equipment fixtures & fitting £'000	Leasehold improvement £'000	Total £'000
Cost					
At 1 January 2003	7,273	11,106	2,600	9,403	30,382
Additions	41	900	116	1,419	2,476
Disposals	(7,314)	(12,004)	(2,716)	(10,822)	(32,856)
At 31 December 2003	-	2	-	-	2
Depreciation					
At 1 January 2003	168	9,093	1,724	3,929	14,914
Provided during the year	46	395	117	430	988
Disposals	(214)	(9,488)	(1,841)	(4,359)	(15,902)
At 31 December 2003	-	-	-	-	-
Net book value					
At 31 December 2003	-	2	-	-	2
At 31 December 2002	7,105	2,013	876	5,474	15,468

11 Investments**Group**

	2003 £'000	2002 £'000
a) Investment in associated undertaking	(5,229)	246
b) Other fixed asset investments	<u>38,377</u>	<u>20,837</u>
	<u>33,148</u>	<u>21,083</u>

a) Investment in associated undertaking

	2003 £'000	2002 £'000
Share of turnover of associated undertaking	<u>22,102</u>	<u>222</u>
Share of profit of associated undertaking	<u>1,354</u>	<u>119</u>
<i>Share of assets</i>		
Share of fixed assets	2,474	-
Share of current assets	11,685	362
<i>Share of liabilities</i>		
Liabilities due within one year or less	(13,717)	-
Liabilities due after more than one year	<u>(5,671)</u>	<u>(116)</u>
Share of net assets	<u>(5,229)</u>	<u>246</u>

The associated undertaking included in the figures for 2003 is London Qualifications Ltd. London Qualifications Ltd accounting period ends on 31 December each year. Therefore the share of the profit for 2003 relates to the audited accounts for the year ended 31 December 2003.

The associated undertaking for 2002 is Awards UK Ltd. The share of the profit shown in the comparative figures is based on audited accounts for the year to 31 March 2002 and on unaudited management accounts for the 9 months to 31 December 2002. Awards UK Ltd was sold with the transfer of the business on 30 May 2003 to London Qualifications Ltd.

Notwithstanding the negative carrying value of Edexcel's share of the net liabilities of LQL, put and call options exist within the Shareholders Agreement such that either Pearsons plc or Edexcel Foundation can buy or sell respectively the 25% share currently owned by Edexcel Foundation in London Qualifications Ltd. The Options are exercisable by either part between 1 April and 1 May from 2007 and 2011 inclusive at the purchase price as calculated according to the provisions in the shareholders agreement. The options are exercisable on any day between 1 April and 1 May from 2007 to 2011 inclusively

The Shareholders Agreement also sets out in detail the calculation of the purchase price. The agreement specifies that the price cannot be less than zero and current projections indicate a value in excess of £5m.

Investments (continued)

b) Other fixed asset investments

	2003 £'000	2002 £'000
Market value at 1 January	20,837	32,270
Additions	14,000	29,033
Disposals at book value	-	(35,570)
Movement in money on deposit	9	(40)
Net loss on revaluation	3,531	(4,856)
Market value at 31 December	38,377	20,837
Historical cost at 31 December	37,701	25,693
Representing:		
Listed securities	-	-
Unit trusts	38,339	20,808
Cash deposits	38	29
	38,377	20,837

Included in income from investments is income from listed investments of £549,261 (2002: £310,764).

Disposals of investments generated cash inflows amounting to £Nil (2002: £35.4m).

All investments are considered to be investment assets in the UK, as defined in the Statement of Recommended Practice "Accounting and Reporting by Charities" 2000.

The company has the power to invest the monies not immediately required for its functions as the Board deems appropriate.

Company

	Associated undertaking £'000	Other investments £'000	Total £'000
Market Value			
At 1 January 2003	200	20,837	21,037
Additions	5,000	14,000	19,000
Disposals	(200)	-	(200)
Movement in money on deposit	-	9	9
Net gain on revaluation	-	3,531	3,531
At 31 December 2003	5,000	38,377	43,377

Additional information on the company's investments can be found under other fixed asset investments – group.

Edexcel Foundation Group Accounts

Investments (continued)

Details of the investments in which the group or company holds 20% or more of the nominal value of any class of share capital are as follows:

<u>Name of Company</u>	<u>Country of incorporation</u>	<u>Holding</u>	<u>Proportion of voting rights & shares held</u>	<u>Nature of Business</u>
Subsidiary Undertaking				
Edexcel Enterprises Ltd	England	Ordinary shares	100%	Education
IHCD Health & Care Ltd	England	Ordinary shares	100%	Education
Associated undertaking				
London Qualifications Ltd	England	Ordinary shares	25%	Education

Edexcel Enterprises Ltd and IHCD Health & Care Ltd did not trade during the year.

Both subsidiary undertakings and the associated undertaking are owned by Edexcel Foundation.

12 Stock

	Group and Company	
	<u>2003 £'000</u>	<u>2002 £'000</u>
Work in progress	-	217

13 Debtors and prepayments

	Group and Company	
	<u>2003 £'000</u>	<u>2002 £'000</u>
Registration fees receivable	-	5,465
Amounts owed by associated undertaking	274	-
Other debtors	-	949
Prepayments & accrued income	18	2,269
	<u>292</u>	<u>8,683</u>

14 Creditors – amounts falling due within one year

	Group and Company	
	2003 £'000	2002 £'000
Bank overdraft	-	-
Registration fees received in advance	-	10,591
Trade creditors	-	1,464
Amounts owed to associated undertaking	-	90
Taxation and social security	-	4,081
Other creditors & accruals	52	7,063
	52	23,289

15 Deferred income

	Group and Company	
	2003 £'000	2002 £'000
Deferred income attributable to:		
Year to 31 December 2003	-	-
Year to 31 December 2002	-	13,206
	-	13,206
Movements during the year:		
Released / (charged) to income and expenditure account	2,317	(1,552)
Relating to discontinued operations	10,889	-
	13,206	(1,552)

16 Provisions for liabilities and charges

	Group and Company		
	Pensions £'000	Property £'000	Total £'000
Balance at beginning of year	158	109	267
Charged in the year			
Released in the year	(158)	(109)	(267)
	-	-	-

17 Capital commitments

	Group and Company	
	2003 £'000	2002 £'000
Contracted for but not provided	-	2,467
Authorised but not yet contracted for	-	1,911

18 Operating lease commitments

Amounts of payments committed to be made during the next financial year in respect of operating leases analysed between commitments expiring:

	2003 £'000	2002 £'000
Less than 2 years	-	218
Between 2 to 5 years	-	24
Greater than 5 years	-	974
	-	1,216

19 Pension costs – group & company

Prior to the disposal of the examinations business the company participated in four defined benefit pension schemes and operated one defined contribution scheme, the Edexcel Pension Plan (EPP). The company has no outstanding obligations with respect to any of these pension funds. All obligations relating to the pension funds detailed below were transferred to London Qualifications Limited on the sale of the examinations business on 30 May 2003.

Currently the company participates in no pension funds, the only pension fund contributions made are to the Chief Executive's personal pension plan.

The four defined benefit pension schemes were as follows:

a. SAUL

The company participated in the Superannuation Arrangements of the University of London (SAUL), a centralised defined benefit scheme for all qualified employees with the assets held in separate trustee-administered funds. SAUL is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The company will therefore account for its pension costs on a defined contribution basis, as permitted by Financial Reporting Standard 17 Accounting for Pension Costs.

The existing accrued expense at the point of transition was written off by recognising a corresponding actuarial gain in the statement of recognised gains and losses.

19 Pension costs – group & company (continued)

The scheme is subject to triennial valuation by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2002 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities:-

	Past service	Future service
Investment return		
- before retirement	6.0% per annum	7.0% per annum
- after retirement	5.0% per annum	5.0% per annum
Salary growth *	4.2% per annum	4.2% per annum
Pension increases	2.7% per annum	2.7% per annum

* excluding an allowance for promotional increases.

The actuarial valuation applies to the scheme as a whole and does not identify surpluses or deficits applicable to individual Employers. As a whole, the market value of the scheme's assets was £941 million representing 121% of the liability for benefits after allowing for expected future increases in salaries.

The contribution rate required for future service benefits alone at the date of the valuation was 17.4% of salaries per annum.

Employers who have recently joined SAUL ('New Employers') and certain employee groups (as agreed by the Trustee of SAUL) pay 17.4% of salaries per annum until the second actuarial valuation after entry (or some other period as agreed with the Trustee). The past service surplus allows all other Employers to pay contributions at the rate of 10.5% of pensionable salaries per annum, subject to review at future valuations. The surplus also supports the continuation of the Employee contribution rate of 5% of salaries per annum, again subject to review.

The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the company was £54,598 (2002 : £131,286). This includes £Nil (2002 : £10,596) outstanding contributions at the balance sheet date.

b. TPS

The company participated in the Teachers Pension Scheme, which is an unfunded defined benefit scheme where contributions payable are credited to the Exchequer and a notional set of investments is maintained.

As a result it is not possible to identify the share of assets applicable to each employer and therefore for the purposes of Financial Reporting Standard 17 the fund is accounted for on a defined contribution basis.

The pension cost is assessed every five years by the Government Actuary, the most recent valuation being 31 March 1996. The notional value of the scheme assets was £61.7 m and the liabilities £65.7m. The method used was the prospective benefits method. The following assumptions were issued:-

Investment return	8.5% per annum
General level of salary growth	6.5% per annum
Pension increases	5.0% per annum

Up to 1 April 2001 the company paid 7.4% of the employee's salary, the current rate is 8.35%.

The total pension cost for the company was £219,037 (2002 : £391,234). This includes £Nil (2002 : £33,995) outstanding contributions at the balance sheet date.

19 Pension costs – group & company (continued)

c. USS

The company participated in the University Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of State Second Pension S2P. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each company's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the deficit for the year being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

As at the valuation date the value of the assets of the scheme was £19,938 and the value of the past service liabilities was £19,776 million, leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The company contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the company contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5m (including the supplementary section) to be carried forward.

Surpluses or deficits which arise in future valuations may impact on the company's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the company was £66,605 (2002 : £160,608). This includes £Nil (2002 : £13,183) outstanding contributions at the balance sheet date. The contribution rate payable by the company was 14% of pensionable salaries.

d. BTEC Plas

BTEC Plas is a defined benefit scheme which was closed to new members in June 1995.

The valuation used for this note has been based on the most recent actuarial valuation of the Scheme as at 1 October 1999, updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the Scheme at 31 December 2002.

Actuarial assumptions adopted as at 31 December 2002

Discount rate	5.5%	
Rate of general increase in salaries	3.8%	
Rate of price inflation	2.3%	
Rate of increase to pensions in payment	5.0%	Fixed pension increase

19 Pension costs – group & company (continued)

Assets in the Scheme and their expected rates of return as at 31 December 2002

Main asset categories	Long-term rate of return as at 31 December	Values as at 31 December
	2002	2002
		£m
Equities	7.5% pa	4.5
Bonds	4.5%pa	2.3
Total Market Value		6.8

Value of Scheme assets and liabilities as at 31 December 2002

	2002
	£m
Market value of Scheme assets	6.8
Present value of Scheme liabilities	8.8
Deficit in the Scheme	(2.0)

The amount of this net pension deficit would have a consequential effect on reserves.

Movement in deficit during the year

	£'000
Deficit in the Scheme at the beginning of the year	(600)
Current service cost	(127)
Contributions paid	214
Past service cost	-
Other finance income / cost	56
Actuarial loss	(1,543)
	<hr/>
Deficit in the Scheme at the end of the year	(2,000)

If FRS 17 had been fully adopted in these financial statements for 2002 the pension costs for the defined benefit scheme would have been:

	£'000
Analysis of the amount charged in arriving at operating profit	
Current service cost	127
Past service costs	-
	<hr/>
Total pension costs within operating profit	127
	<hr/>
Analysis of the amounts credited to other finance income	
Expected return on scheme assets	542
Interest cost	(468)
	<hr/>
Net expected return on pension asset	74

19 Pension costs – group & company (continued)

Analysis of amount recognised in statement of total recognised gains and losses

	£'000
Actual return less expected return on Scheme assets	(1,430)
Experience gain/(loss) arising on Scheme liabilities	487
Gain/(loss) from change in assumptions underlying The present value of Scheme liabilities	(600)
	<hr/>
Total gain/(loss)	1,543
	<hr/>

History of experience gains and losses:

	£'000
Difference between actual and expected return on Scheme assets	
Amount	(1,430)
Percentage of Scheme assets	-21.0%
	£'000
Experience gains and losses on Scheme liabilities	
Amount	487
Percentage of present value of Scheme liabilities	5.5%
	£'000
Amount recognised in statement of recognised gains and losses	
Amount	(1,543)
Percentage of present value of Scheme liabilities	-17.5%

The one defined contribution scheme is as follows:

a. EPP

The Edexcel Pension Plan (EPP), previously operated by the company, is a defined contribution pension scheme. The pension cost for the year represents contributions payable by the group to the scheme and amounted to £242,200 (2002 : £538,449)

Contributions amounting to £Nil (2002 : £45,331) were payable to the scheme at the balance sheet date and are included in creditors.

20 Notes on the group cash flow statement

a) Reconciliation of net (outgoing)/incoming resources to net cash inflow from operations

	2003 £'000	2002 £'000
Net (outgoing)/incoming resources before investment asset disposals/revaluations	(5,728)	1,949
Depreciation	1,059	4,476
Decrease in stocks	217	265
(Increase) in debtors	(492)	(770)
Increase in creditors	38,233	2,816
(Decrease) / increase in deferred income	(2,317)	1,552
Increase / (decrease) in provisions	64	(347)
Net cash inflow from operating activities	31,036	9,941

The cash inflows/(outflows) have been adjusted for cash flows resulting from the sale of the examinations business.

b) Gross cash flows

	2003 £'000	2002 £'000
Returns on investments and servicing of finance:		
Interest received	393	287
Dividends received	-	583
	393	870
Capital expenditure:		
Purchase of fixed assets	(2,476)	(5,834)
Purchase of business assets	-	-
Net purchase of investments	(14,000)	6,853
	(16,476)	1,019
Acquisitions and disposals:		
Sale of business	15,000	-
Net cash disposed of with business	(34,563)	-
	(19,563)	-
Management of liquid resources:		
Change in short term deposits	900	(2,000)

20 Notes on the group cash flow statement (continued)

c) Reconciliation of net cash flow to movement in net funds

	2003 £'000	2002 £'000
(Decrease) / increase in cash	(3,710)	9,830
(Decrease) / increase in liquid resources	(1,100)	2,000
	(4,810)	11,830
Net funds at the beginning of the period	5,734	(6,096)
	924	5,734

d) Analysis of net funds

	At 1 Jan 2003 £'000	Cash Flow £'000	At 31 Dec 2003 £'000
Cash at bank, in hand	3,734	(3,710)	24
Short term deposits	2,000	(1,100)	900
	5,734	(4,810)	924