AVEVA Group plc

Consolidated financial statements for year ended
31 March 2003 together with directors' and auditors' reports

Registered number: 2937296

Directors' report

For the year ended 31 March 2003

The directors present their annual report on the affairs of the group together with the financial statements and auditors' report for the year ended 31 March 2003.

Principal activities

The company is a holding company. The principal activities of the group are the marketing and development of computer software and services for engineering and related solutions.

Business review

A review of the group's operations during the year and its plans for the future is given in the Chairman's and Chief Executive's Statements and Financial Review.

The group made a profit for the year after taxation of £3,658,000 (2002 - £3,365,000). Sales were £36,008,000 (2002 - £31,818,000) with overseas sales representing 82% (2002 - 85%) of the business.

Creditors' payment practice

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. The company has no trade creditors (2002 - £nil).

Results and dividends

The group results and dividends are as follows:

	£000
Group profit for the year after taxation	3,658
Dividends paid and proposed	
- interim dividend paid of 1.8p per ordinary share	(308)
- final dividend proposed of 3.8p per ordinary share	(647)
Retained profit for the year	2,703

Research and development

The group continues an active programme of research and development and all costs are expensed as incurred. The research and development programme covers updating of and extension to the group's range of products.

Intellectual property

The group owns intellectual property both in its software tools and the products derived from them. The directors consider such properties to be of significant value to the business. Intellectual property acquired is capitalised at cost but internally developed intellectual property costs are written off as incurred.

Directors and their interests

The directors who served during the year under review are shown below:

*	R A King	(Chairman)
	A D Christian	
*	J R F Fairbrother	Resigned 31 August 2002
*	C A Garrett	
	R Longdon	
*	D W Mann	
	P R Taylor	

* Non-executive directors

The beneficial interests in the shares of the company of directors who held office at 31 March 2003 are as follows:

	2003 10p ordinary shares	2002 (or earlier date of appointment) 10p ordinary shares
R A King	131,250	131,250
A D Christian	-	6,722
C A Garrett	-	-
R Longdon	380,476	778,000
D W Mann	17,800	17,800
P R Taylor	4,000	4,000

No changes took place in the interests of directors in the shares of the company between 31 March 2003 and 19 May 2003.

Directors' share options are disclosed in the Directors' remuneration report on page 8.

Directors' report (continued)

Other substantial shareholdings

On 15 May 2003, the company had been notified in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

Name of holder	Number	Percentage held
Amvescap PLC	1,707,278	10.02
Gartmore Investment Management PLC	1,694,978	9.95
The Throgmorton Trust plc	1,663,554	9.76
Hermes Administration Services Ltd	1,414,494	8.30
3i Group PLC	906,272	5.32
Invesco English and International Trust	763,000	4.48
University of Cambridge	675,000	3.96
Standard Life	626,366	3.67
UBS Global Asset Management Holding (No.2)	568,293	3.33
Legal & General Investment Management	534,897	3.14
Barclays Bank plc	534,703	3.14

Charitable donations

During the year the group made charitable donations of £5,413 (2002 - £3,565).

Auditors

Ernst & Young LLP were appointed during the year to fill a casual vacancy. A resolution to reappoint Ernst & Young LLP as auditors for the ensuing year will be put to the members at the Annual General Meeting.

High Cross
Madingley Road
Cambridge
CB3 0HB

By order of the Board,

P R Taylor
Secretary

19 May 2003

Board of directors

Richard King CBE, aged 73, Non-Executive Chairman
Richard joined AVEVA at the time of the management buyout negotiations and was appointed Chairman at their conclusion in August 1994. Prior to that he held various senior management positions in both Pye of Cambridge and Philips NV in the UK and overseas. In 1980 he created, out of Philips, Cambridge Electronic Industries, a group of some 25 specialist companies. The group was listed on the London Stock Exchange (LSE) in 1982 and he was CEO throughout the 1980's. Richard then turned his attention and interests to the development of early stage technical companies, mostly in Cambridge. Three of these, apart from AVEVA, where at various times he was Chairman, obtained LSE listings. He also committed considerable time to public service appointments as a director or Governor of Addenbrooke's Hospital; Anglia Polytechnic University and Eastern Arts and is currently Deputy Chairman of Xaar plc; Chairman of Sentec; governor of Norwich School of Art and Design and a trustee of the East Anglian Air Ambulance Trust. He is an Emeritus Fellow of Darwin College in the University of Cambridge.

Richard Longdon, aged 47, Chief Executive
Richard Longdon received an engineering training in the defence industry then gained experience in the project management of high value engineering projects. He moved into sales and held a series of international sales and marketing positions. He joined AVEVA in 1984 and shortly afterwards was made marketing manager for the process products. In January 1992 he relocated to Frankfurt where he was responsible for setting up and running the group's German office. He returned to the UK as part of the management buyout team in 1994 subsequently taking responsibility for the group's worldwide sales and marketing activities before being appointed Managing Director in May 1999. He took over as Group Chief Executive in December 1999.

Paul Taylor, FCCA aged 38, Finance Director and Company Secretary
Paul Taylor is a Fellow of the Association of Chartered Certified Accountants and joined AVEVA in 1989. He was heavily involved in the flotation process and has been responsible for both UK accounting and the development of its overseas subsidiaries including adherence to group standards. Between 1998 and 2001 Paul was also UK Director of Human Resources and was appointed to the position of Finance Director and Company Secretary of AVEVA Group plc on 1 March 2001. Prior to joining AVEVA, Paul originally trained within the accountancy profession before moving to Philips Telecommunications (UK) where he was responsible for the management accounts of its Public sectors division.

Tony Christian, aged 48, Director
Tony Christian joined AVEVA in 1998 from Computer Sciences Corporation (CSC), where he was a Director of UK Consulting and Systems Integration, managing the process industry practice. He holds a Bachelor's degree in Mechanical Engineering and a Master's degree in Acoustics from the University of Nottingham. Following research and development posts at Racal and British Rail, he moved into the CAD industry in 1982. His subsequent experience includes three years with British Aerospace and four years with the computing subsidiary of Davy Corporation (now part of Kvaerner Group), where he was responsible for its process industry solutions division. Tony headed up AVEVA's Services and Technology division and then went on to manage the introduction of the Consulting and Managed Services divisions. He is currently responsible for the company's product development and for the delivery of consulting and managed services contracts.

Board of directors (continued)

David Mann, aged 58, Non-Executive Director and Senior Independent Director
David Mann was educated at Jesus College, Cambridge. He is Non-Executive Chairman of Charteris plc, a business and IT management consultancy, which he established with some colleagues in 1996 and was floated on AIM in 2000. He is also Non-Executive Chairman of Flomerics Group plc (quoted on AIM) and Non-Executive Director of Ansbacher Holdings Ltd and Room Solutions Limited. Prior to setting up Charteris, he spent almost all his career with Logica plc where he became head of worldwide operations, then Group Chief Executive and finally Deputy Chairman. He is a Past President of the British Computer Society and a Past Master of the Worshipful Company of Information Technologists in the City of London.

Colin Garrett, aged 46, Non-Executive Director
Colin Garrett was formerly the head of Plc Advisory at PricewaterhouseCoopers in the Midlands. Previously, Colin was a Director of Corporate Finance at Albert E Sharp. For the last three years he has advised a number of companies and worked closely with management teams on their strategy and plans for growth. Colin is a Non-Executive Director of Intec Business Colleges plc, Sentec Limited and Vocalis Group plc. He is also Non-Executive Chairman of 3G Comms Limited and ZBD Displays Limited.

Corporate governance statement

The company is committed to the principles of corporate governance contained in the Combined Code, which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

Statement of compliance with the Code of Best Practice
The company has complied throughout the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code.

Statement about applying the Principles of Good Governance
The company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as described above. Further explanation of how the Principles have been applied is set out below and, in connection with directors' remuneration, in the Directors' remuneration report.

Board of directors
The executive directors of the group are fully involved in its management at all levels, and its direction and control remains firmly in their hands. The board is fully involved in the nomination, selection and appointment of non-executive and executive directors, although there is no formal written procedure in place.

The board currently comprises the non-executive chairman, two non-executive directors, including the senior independent director, and three executive directors. The board meets at least eight times during the year. It is responsible for the business and commercial strategy of the group, monitoring progress, the approval of major transactions and the approval of the financial statements and operating and capital expenditure budgets. To enable the board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the company secretary to all directors in advance of board meetings. The chairman ensures that the directors take independent professional advice as required. A nomination committee for board appointments has not been established, because the full board is actively involved in all appointments. There is currently no intention to form a nomination committee given the board's size. All directors are subject to re-election at least every three years.

It is the view of the board that all non-executive directors are independent.

Audit Committee
The Audit Committee comprises the three non-executive directors and is chaired by Colin Garrett with R A King and D W Mann as members. The Committee meets as required to review the scope of the audit and the audit procedures, the format and content of the audited financial statements and interim reports, including their notes and the accounting principles applied. The Committee will also review any proposed change in accounting policies and any recommendations from the group's auditors regarding improvements to internal controls and the adequacy of resources within the group's finance function. The Audit Committee advises the board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

Corporate governance statement (continued)

Dialogue with institutional shareholders
The chief executive and the finance director have meetings with representatives of institutional shareholders at least twice annually. These meetings seek to build a mutual understanding of objectives by discussing long-term issues and obtaining feedback. All shareholders are encouraged to participate in the company's Annual General Meeting.

Internal control
The board has applied Principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the group faces. The board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with Internal Control: "Guidance for Directors on the Combined Code" published in September 1999. The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets and against material misstatement or loss.

In compliance with Provision D.2.1 of the Combined Code, the board continuously reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The board has also performed a specific assessment for the purpose of this annual report. This assessment considered all significant aspects of internal control arising during the period covered by the report. The audit committee assists the board in discharging its review responsibilities.

The board has considered the requirement to have an internal audit function and given the group's relative size, does not consider one necessary at this point but will monitor this going forward.

Directors' remuneration report

This report has been prepared in accordance with Schedule 7A of the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements of the company will be approved.

The Regulations require the auditors to report to the company members on the 'auditable part' of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited Information

Remuneration Committee

The Remuneration Committee's principal responsibility is to determine the remuneration of both the company's executive directors and its senior management within broad policies agreed with the board. In addition it reviews the remuneration policy for the Company as a whole. The remuneration of the non-executive directors is determined by the Executive Directors, not the Committee.

The Committee comprises a Chairman (D Mann) and two non-executive directors (R King and C Garrett). The Chief Executive (R Longdon) is invited to submit recommendations to the Committee and both he and the members of the Committee take into consideration relevant external market data as well as the reviews of remuneration for employees of the group generally.

Remuneration policy

The Committee aims to ensure that members of the executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. It also aims for a combination of fixed and variable payments, benefits and share option plans that will achieve a balance in incentives to achieve short and long-term goals.

Basic Salaries

In determining the basic salary of each executive director the Committee takes account of the performance of the Company as a whole and the performance of the individual in achieving financial and non-financial goals within his areas of responsibility.

Bonus Payments

The executive directors participate in annual performance-related bonus schemes determined by the Committee. The schemes are based substantially or entirely on the performance of the Company as a whole; part may be based on the achievement of personal objectives. In the year ended 31 March 2003 no bonuses were actually paid. For the year ending 31 March 2004 there will be a cap on the bonus that an executive director can earn under the scheme and the highest cap will be 60% of basic salary.

Share Options

The Committee considers that periodic grants of share-related incentives should constitute an important element of the remuneration of the Company's senior executives, in line with common practice in competitive companies. However there is currently very little scope for providing such incentives via the Company's existing share option scheme and no options were granted to executive directors during the year ended 31 March 2003. The board is therefore making separate proposals to shareholders concerning the introduction of a new share-related incentive scheme and the Committee hopes that this scheme can be introduced soon.

Service Contracts

The service contracts and letters of appointment of the directors include the following terms:

	Date of Contract	Date of Appointment	Notice Period (months)
R A King	28 November 1996	28 November 1996	3
A D Christian	7 April 1998	1 May 1999	9
J R F Fairbrother	28 November 1996	28 November 1996	Resigned
C A Garrett	14 July 2000	1 August 2000	3
R Longdon	28 November 1996	28 November 1996	12
D W Mann	17 May 2000	8 June 1999	3
P R Taylor	17 October 1989	1 March 2001	9

The Committee considers that the notice periods of the executive directors are in line with those in other companies of a similar size and nature and are in the best interests of the group to ensure stability in senior management. The non-executive and executive directors retire at any Annual General Meeting where they are so required by the Articles of Association, accordingly their contracts have no set termination date.

There are no predetermined special provisions for executive or non-executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee would be responsible for considering the circumstances of the early termination and in exceptional circumstances will determine compensation payments in excess of the company's contractual obligations.

Performance Graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the techMARK All Share Index.

The directors consider the techMARK All Share index to be an appropriate choice as the Index includes the group.

PERFORMANCE GRAPH APPEARS HERE

Directors' remuneration report (continued)

Audited Information

Directors' remuneration

The total amounts for directors' emoluments and other benefits were as follows:

Name of director	Basic salary £000	Fees £000	Bonus £000	Benefits in kind £000	2003 Total £000	2002 Total £000
Non-executive						
R A King	-	32	-	-	32	32
J R F Fairbrother*	-	6	-	-	6	12
C A Garrett	-	20	-	-	20	20
D W Mann	-	20	-	-	20	16
Executive						
A D Christian	147	-	-	13	160	153
J R Dersley*	-	-	-	-	-	42
P D Littleton*	-	-	-	-	-	94
R Longdon	175	-	-	18	193	178
P R Taylor	115	-	-	17	132	125
Aggregate emoluments	437	78	-	48	563	672

*Remuneration shown up to date of resignation from the board.

The remuneration of each executive director includes non-cash benefits comprising the provision of a company car.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors.

Directors' remuneration report (continued)

Share Options

The interests of directors in options to acquire ordinary shares were as follows:

Name	As at 1 April 2002	Granted	Exercised	As at 31 March 2003	Gain on exercise	Exercise price	Earliest date of exercise	Date of expiry
	Number	Number	Number	Number	£			
A D Christian	150,000	-	-	150,000	-	272.5p	01.06.01	31.05.05
	50,000	-	-	50,000	-	524.7p	19.01.04	18.01.08
R Longdon	100,000	-	-	100,000	-	524.7p	19.01.04	18.01.08
P R Taylor	3,000	-	-	3,000	-	50.4p	27.11.99	28.11.03
	3,000	-	-	3,000	-	200.0p	24.05.00	23.05.04
	23,000	-	-	23,000	-	179.2p	16.03.02	15.03.06
	71,000	-	-	71,000	-	524.7p	19.01.04	18.01.08

The market price as at 31 March 2003 was 321.5p with a high-low spread for the year of 430.0p to 251.5p.

The options are normally exercisable in full or in part between the third and seventh anniversaries of the date of grant. All options except for those at 50.4p are subject to performance conditions, which require earnings per share to outperform RPI (utilisation) by a total of 10% over a three-year rolling period.

Pensions

R Longdon, A D Christian and P R Taylor are members of the AVEVA Solutions Limited's defined benefit pension scheme. It is a contributory, funded, final salary occupational pension scheme approved by the Inland Revenue. Under this scheme they are entitled to a pension on normal retirement, or on retirement due to ill health, equivalent to two-thirds of their pensionable salary provided they have completed (or would have completed in the case of ill-health) 25 years' service. Inland Revenue earnings limits apply to A D Christian and P R Taylor when calculating final salary. A lower pension is payable on earlier retirement after the age of 50 by agreement with the Company. Pensions are payable to dependants on the director's death in retirement and a lump sum is payable if death occurs in service.

Directors' remuneration report (continued)

The following directors had accrued entitlements under the pension scheme as follows:

	Accumulated accrued pension at 31 March 2003	Accumulated accrued pension at 31 March 2002	Increase in accrued pension during year	Increase in accrued pension during the year, after removing the effects of inflation	Transfer value of increase, after removing the effects of inflation, less directors' contributions
	£	£	£	£	£
A D Christian	12,530	9,750	2,780	2,610	18,460
R Longdon	87,890	76,090	11,800	10,510	82,275
P R Taylor	29,360	26,340	3,020	2,630	10,060

The transfer value as at date of retirement of each directors' accrued benefits at the end of the financial year is as follows:

	31 March 2003	31 March 2002	Movement, less directors' contributions
	£	£	£
A D Christian	113,160	77,220	30,840
R Longdon	768,480	548,670	210,620
P R Taylor	151,840	115,705	31,030

The pension entitlement shown is that which would be paid annually on retirement based on the service to the end of the year.

Directors' remuneration report (continued)

The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 (and are net of directors' own contributions). Members of the scheme have the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.

High Cross
Madingley Road
Cambridge
CB3 0HB

By order of the Board,

P R Taylor
Secretary

19 May 2003

Statement of directors' responsibilities

Financial statements, including adoption of going concern basis

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 group and of the profit or loss of the group for that period.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the 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; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' report

Independent Auditors' report to the members of AVEVA Group plc:

We have audited the financial statements of AVEVA Group plc for the year ended 31 March 2003 which comprise the Consolidated profit and loss account, Consolidated statement of total recognised gains and losses, Consolidated balance sheet, Company balance sheet, Consolidated cash flow statement and the related notes numbered 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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 Auditors' 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' responsibilities for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of directors' responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Director's remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report, Board of directors, unaudited part of the Directors' remuneration report and Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Auditors' report (continued)

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments 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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Cambridge

19 May 2003

Consolidated profit and loss account

For the year ended 31 March 2003

	Notes	2003 £000	2002 £000
Turnover	2	36,008	31,818
Cost of sales		(13,047)	(11,588)
Gross profit		22,961	20,230
Other operating expenses	3	(17,343)	(15,306)
Operating profit		5,618	4,924
Interest receivable		53	40
Interest payable and similar charges	4	(91)	(26)
Profit on ordinary activities before taxation	5	5,580	4,938
Tax on profit on ordinary activities	7	(1,922)	(1,573)
Profit on ordinary activities after taxation, being profit for the financial year	20	3,658	3,365
Dividends paid and proposed on equity shares	8	(955)	(921)
Retained profit for the year		2,703	2,444
Basic earnings per share	9	21.46p	19.82p
Diluted earnings per share	9	21.24p	19.48p

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

All results are derived from continuing activities.

Consolidated statement of total recognised gains and losses

For the year ended 31 March 2003

	2003 £000	2002 £000
Profit for the financial year	3,658	3,365
Translation loss arising on consolidation	(437)	(38)
Total recognised gains and losses recognised since last annual report	3,221	3,327

The accompanying notes are an integral part of this Consolidated statement of total recognised gains and losses.

Consolidated balance sheet

31 March 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Goodwill	10	1,580	1,847
Other intangible assets	10	2,329	2,681
Tangible assets	11	4,674	3,779
		8,583	8,307
Current assets			
Stocks	13	758	958
Debtors	14	15,772	12,818
Cash at bank and in hand		5,129	6,356
		21,659	20,132
Creditors: Amounts falling due within one year	15	(11,076)	(11,609)
Net current assets		10,583	8,523
Total assets less current liabilities		19,166	16,830
Creditors: Amounts falling due after more than one year	16	(112)	-
Provisions for liabilities and charges	18	(472)	(533)
Net assets		18,582	16,297
Capital and reserves			
Called-up share capital	19	1,705	1,704
Share premium account	20	7,318	7,300
Profit and loss account	20	9,559	7,293
Shareholders' funds - all equity	21	18,582	16,297

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

Company balance sheet

31 March 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Investments	12	7,205	7,205
Current assets			
Debtors	14	3,439	3,308
Cash at bank and in hand		15	48
		3,454	3,356
Creditors: Amounts falling due within one year	15	(647)	(614)
Net current assets		2,807	2,742
Total assets less current liabilities, being net assets		10,012	9,947
Capital and reserves			
Called-up share capital	19	1,705	1,704
Share premium account	20	7,318	7,300
Profit and loss account	20	989	943
Shareholders' funds – all equity		10,012	9,947

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

The financial statements were approved by the Board of directors on 19 May 2003 and signed on its behalf by:

R A King

Directors

R Longdon

19 May 2003

Consolidated cash flow statement

For the year ended 31 March 2003

	Notes	2003 £000	2002 £000
Net cash inflow from operating activities	22	3,232	4,135
Returns on investments and servicing of finance	23	(38)	14
Taxation	23	(2,123)	(1,202)
Capital expenditure and financial investment	23	(1,735)	(1,606)
Equity dividends paid		(922)	(914)
Cash (outflow) / inflow before financing		(1,586)	427
Financing	23	(11)	161
(Decrease) / increase in cash in the year	24	(1,597)	588

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

Notes to the financial statements

1 Accounting policies

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.

b) Basis of consolidation

The group financial statements consolidate the financial statements of AVEVA Group plc and its subsidiary undertakings made up to 31 March each year. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the Consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Where the company does not hold a majority shareholding in an investee company, but the directors consider that dominant influence is exercised over its operating and financial policies, the investee company will be treated as a subsidiary for the purposes of consolidation.

No profit and loss account is presented for AVEVA Group plc as provided by Section 230 of the Companies Act 1985. The company's profit after taxation for the financial year, determined in accordance with the Act, was £1 million (2002 - £1 million).

c) Intangible assets

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is between seven and a maximum of twenty years.

Goodwill arising on acquisitions in the year ended 31 March 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Purchased software rights are capitalised at cost and amortised on a straight line basis over their estimated useful lives of ten years.

The carrying value of goodwill and intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

d) Research and development

Research and development expenditure is written off in the year of expenditure.

e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

The group has taken advantage of the transitional provisions of FRS15 Tangible Fixed Assets and retained the book amounts of certain freehold properties which were revalued prior to implementation of that standard. The properties were last revalued in 1994 and the valuations have not subsequently been updated.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, based on prices prevailing at the date of acquisition, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	-	25%	per annum
Fixtures and fittings and office equipment	-	12-15%	per annum
Motor vehicles	-	25%	per annum

Leasehold buildings are amortised on a straight-line basis over the period of the lease or useful economic life if shorter. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

f) Investments

Fixed asset investments are shown at cost less any provision for impairment.

g) Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

1 Accounting policies (continued)

g) Taxation (continued)

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

h) Pension costs

The defined benefit pension scheme, previously available to all UK employees was closed to new applicants during the year. UK employees are now offered membership of a defined contribution scheme after a qualifying period. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the group benefits from the employees' services. The effect of variations from regular cost is spread over the expected average remaining service lives of current members of the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries.

The group also operates a defined contribution pension scheme for a number of non-UK employees. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

i) Foreign currency

Transactions denominated in foreign currencies are recorded at actual exchange rates as of the date of the transaction, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year end, or, where appropriate at the forward contract rate. 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 profit and loss account.

The results of overseas subsidiary undertakings are translated at the average exchange rate during the year, and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas subsidiary undertakings are dealt with through reserves.

j) Turnover

Turnover comprises fees in respect of initial and extension licences, annual licences, and rentals together with income from consultancy and other related services (excluding VAT and similar taxes).

For each revenue stream, no revenue is recognised unless and until:

- a clear contractual arrangement can be evidenced;
- delivery has been made in accordance with that contract;
- if required, contractual acceptance criteria have been met; and
- the fee has been agreed and collectability is probable.

Users can pay an initial fee upon installation followed by an obligatory annual fee on each anniversary of installation. Additional usage can be licensed at any time on payment of an extension fee similar to the initial fees. The annual fee covers right to use, core product enhancements and remote support services.

Initial and extension fees are recognised in full once the above conditions have been met. No provision is made for uninvoiced post contract support in the twelve months following an initial contract, as the incremental cost of this is considered incidental. Annual revenues are recognised ratably over the period of the contract.

As an alternative to the initial/extension plus annual fee, the group also supplies its software under two different types of rental contract.

Rentals which are invoiced monthly and which are cancellable by the customer are recognised on a monthly basis.

Other rental contracts are invoiced at the start of the contracted period, are non-cancellable and consist of the right to use and the right for support and enhancements. Revenue in respect of the right to use is recognised once the above conditions have been met and a deferral of revenue is made for the right for support and enhancements which is recognised equally over the period of the contract.

Income from consultancy and other related services is recognised on a time and material basis.

k) Leases

Rentals payable under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Where fixed assets are financed by leasing arrangements which transfer to the group substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

l) Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to foreign exchange risk. The group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the group's financial statements.

m) Long term contracts

Cumulative costs incurred net of amounts transferred to costs of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses.

2 Turnover

A geographical analysis of turnover by destination is set out below:	2003 £000	2002 £000
United Kingdom	6,346	4,678
Rest of Europe, Middle East and Africa	11,029	11,589
Americas	10,102	8,229
Asia Pacific	8,531	7,322
	36,008	31,818

No further geographical segmental analysis is given as, in the opinion of the directors, disclosure of this information would be seriously prejudicial to the interests of the group.

3 Other operating expenses

	2003 £000	2002 £000
Selling costs	12,658	11,051
Administrative expenses	4,685	4,255
	17,343	15,306

4 Interest payable and similar charges

	2003 £000	2002 £000
Bank interest payable and similar charges	91	26
	91	26

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting):

	2003 £000	2002 £000
Depreciation of owned tangible fixed assets	1,012	1,167
Depreciation of tangible fixed assets held under finance leases	30	-
Amortisation of purchased software rights	352	370
Amortisation of goodwill	267	267
Auditors' remuneration		
- audit (current auditors)	209	-
- audit (previous auditors)	18	190
- non-audit (current auditors)	89	-
- non-audit (previous auditors)	35	21
Research and development costs	5,933	5,780
Operating lease rentals		
- land and buildings	936	875
- plant and machinery	284	291
(Profit) / loss on disposal of tangible fixed assets	(4)	143

6 Staff costs

Particulars of employees (including executive directors) are shown below:

	2003 £000	2002 £000
Wages and salaries	12,479	12,120
Social security costs	1,532	1,122
Other pension costs	1,465	1,283
	15,476	14,525

6 Staff costs (continued)

The average monthly number of persons (including executive directors) employed by the group was as follows:

	2003 Number	2002 Number
Research, development and product support	100	111
Sales, marketing and customer support	166	164
Administration	64	65
	330	340

Directors' remuneration

The disclosure of individual directors' remuneration and interests required by the Companies Act 1985 and those specified for audit by the Listing Rules of the Financial Services Authority are shown in the Directors' remuneration report on pages 8 to 14 and form part of these financial statements.

7 Tax on profit on ordinary activities

The tax charge comprises:

	2003 £000	2002 £000
UK corporation tax	604	728
Adjustments in respect of prior periods	(255)	-
	349	728
Foreign Tax	1,643	852
Adjustments in respect of prior periods	(9)	-
Total current tax	1,983	1,580
Deferred tax		
Origination and reversal of timing differences (note 18)	(61)	(7)
Total tax on profit on ordinary activities	1,922	1,573

7 Tax on profit on ordinary activities (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2003 £000	2002 £000
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2002 - 30%)	1,674	1,481
Effects of:		
Expenses not deductible for tax purposes	103	89
Other timing differences	(56)	-
Higher tax rates on overseas earnings	371	10
Unrelieved tax losses	155	-
Adjustments in respect of prior years	(264)	-
Group current tax charge for period	1,983	1,580

The group's tax rate is higher than the UK tax rate because a significant proportion of its profits are earned overseas and are subject to higher rates of tax. This is expected to continue for the foreseeable future. The group has overseas tax losses of approximately £450k (2002: £nil) available for offset against future taxable profits of the overseas subsidiary that incurred the loss. No deferred tax asset has been recognised in respect of these losses because the losses do not satisfy the recognition criteria for deferred tax assets in FRS19.

8 Dividends paid and proposed on equity shares

	2003 £000	2002 £000
Interim dividend paid of 1.8p (2002 - 1.8p) per ordinary share	308	307
Final dividend proposed of 3.8p (2002 - 3.6p) per ordinary share	647	614
	955	921

9 Earnings per share

The calculations of earnings per share are based on the profit after tax for the year of £3,658,000 (2002 - £3,365,000) and the following weighted average numbers of shares:

	2003 Number	2002 Number
For basic earnings per share	17,042,245	16,976,508
Employee share options	180,540	301,710
For diluted earnings per share	17,222,785	17,278,218

Notes to the financial statements (continued)

10 Intangible fixed assets

Group	Purchased software rights £000	Goodwill £000
Cost		
At 1 April 2002 and 31 March 2003	3,523	2,669
Amortisation		
At 1 April 2002	842	822
Charge for the year	352	267
At 31 March 2003	1,194	1,089
Net book value		
At 1 April 2002	2,681	1,847
At 31 March 2003	2,329	1,580

Purchased software rights arose on the acquisition of the products 'FOCUS' for £1,700,000 on 13 September 1999 and 'VANTAGE' for £1,500,000 on 2 December 1999. On 7 September 2000, the group acquired OPE software for £323,000.

Purchased goodwill arose on the acquisition of rights to integrate, develop and market 3D design software from AEA Technology on 30 March 1999. The initial cost of goodwill was £2,169,000.

In addition, on 12 November 1998 AVEVA agreed to acquire from the distributor Kyokuto Boeki Kaisha all AVEVA's business in Japan. The goodwill arising on acquisition was £500,000.

All intangible assets are being amortised over their useful economic life of ten years.

The company had no intangible fixed assets in either year.

11 Tangible fixed assets

Group	Long leasehold land and buildings £000	Computer equipment £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 April 2002	1,100	6,338	1,855	512	9,805
Additions	1,275	397	308	57	2,037
Disposals	-	(10)	-	(228)	(238)
Exchange adjustment	-	(31)	14	-	(17)
At 31 March 2003	2,375	6,694	2,177	341	11,587
Depreciation					
At 1 April 2002	178	4,833	778	237	6,026
Charge for the year	23	614	307	98	1,042
Disposals	-	(2)	-	(182)	(184)
Exchange adjustment	-	21	8	-	29
At 31 March 2003	201	5,466	1,093	153	6,913
Net book value					
At 1 April 2002	922	1,505	1,077	275	3,779
At 31 March 2003	2,174	1,228	1,084	188	4,674

The net book value of computer equipment includes an amount of £214,000 (2002 - £nil) in respect of assets held under finance leases.

The company had no tangible fixed assets.

The long leasehold land and buildings were revalued, on the basis of the open market value for existing use, by Bidwells, Chartered Surveyors, as at 29 July 1994. There was no original historical cost to the group.

12 Fixed asset investments

	2003 Company £000	2002 Company £000
Subsidiary undertakings	7,205	7,205

All subsidiary undertakings have been included in the consolidation.

At 31 March 2003 the parent company and the group had the following investments:

Name of undertaking	Country of incorporation or registration	Principal activity	Description and proportion of shares and voting rights held
AVEVA Solutions Limited*	Great Britain	Software development and marketing	100% ordinary shares of £1 each
AVEVA Inc.	USA	Software marketing	100% common stock of US$1 each
AVEVA GmbH	Germany	Software marketing	100% ordinary shares of Euros 25,565 each
AVEVA SA	France	Software marketing	100% ordinary shares of Euros 30 each
AVEVA East Asia Limited	Hong Kong	Software marketing	100% ordinary shares of HK$1 each
Cadcentre Property Limited	Great Britain	Holding property	100% ordinary shares of £1 each
Cadcentre Pension Trustee Limited	Great Britain	Trustee company	100% ordinary shares of £1 each
AVEVA Engineering IT Limited	Great Britain	Software marketing	100% ordinary shares of £1 each
AVEVA A/S	Norway	Training and consultancy	100% ordinary shares of NOK 500 each
AVEVA KK	Japan	Software marketing	100% ordinary shares of 50,000 Yen each
AVEVA Sendirian Berhad	Malaysia	Software marketing	49% ordinary shares of MYR1 each
AVEVA Asia Pacific Sendirian Berhad	Malaysia	Software marketing	100% ordinary shares of MYR1 each
AVEVA Korea Limited	Korea	Software marketing	100% ordinary shares of KRW500,000 each
AVEVA Managed Services Limited	Great Britain	Consulting & support services	100% ordinary shares of £1 each
Cadcentre Limited*	Great Britain	Consulting & support services	100% ordinary shares of £1 each
AVEVA Consulting Limited*	Great Britain	Consulting & support services	100% ordinary shares of £1 each
AVEVA Information Technology India Private Limited	India	Software marketing	100% ordinary shares of 10 Rupee each
Cadcentre Engineering IT Limited	Great Britain	Software marketing	100% ordinary shares of £1 each

*All subsidiaries except AVEVA Solutions Limited, AVEVA Consulting Limited and Cadcentre Limited are indirectly owned.

Notes to the financial statements (continued)

13 Stocks

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
Net cost less foreseeable losses and applicable payments on account	758	-	958	-

There is no material difference between the balance sheet value of stocks and their replacement costs.

14 Debtors

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
Amounts falling due within one year:				
Trade debtors	13,465	-	11,409	-
UK corporation tax receivable	351	-	-	-
Amounts owed by group undertakings	-	3,439	-	3,308
Prepayments	1,765	-	1,357	-
Accrued income	191	-	52	-
	15,772	3,439	12,818	3,308

15 Creditors: Amounts falling due within one year

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
Bank overdraft	199	-	-	-
Obligations under finance leases	102	-	-	-
Trade creditors	1,042	-	610	-
UK corporation tax payable	-	-	897	-
Foreign tax	1,254	-	146	-
Social security, PAYE and VAT	791	-	625	-
Other creditors	55	-	55	-
Accruals	1,278	-	1,482	-
Deferred income	5,708	-	7,180	-
Proposed dividend	647	647	614	614
	11,076	647	11,609	614

16 Creditors: Amounts falling due after more than one year

	2003		2002	
	Group £000	Company £000	Group £000	Company £000
Obligations under finance leases, due within two to five years	112	-	-	-
	112	-	-	-

17 Derivatives and other financial instruments

The disclosures in this note deal with financial assets and financial liabilities as defined in FRS13 "Derivatives and other financial instruments: Disclosures". Certain financial assets such as investments in subsidiaries are excluded from the scope of these disclosures.

The group's financial instruments comprise cash and liquid resources, and various items, such as trade debtors and trade creditors, that arise directly from its operations. As permitted by FRS13, short-term debtors and creditors have also been excluded from the disclosures (except as indicated below).

It is, and has been, throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing such risks on a regular basis as summarised below.

Interest rate and liquidity risks

The group holds net funds, and hence its interest rate risk and liquidity risk are associated with short-term cash deposits. The group's overall objective with respect to holding these deposits is to maintain a balance between accessibility of funds and competitive rates of return. In practice this has meant that no deposits have been made with a maturity date greater than three months in the course of the year.

Foreign currency risk

Foreign currency risk arises from the group undertaking a significant number of foreign currency transactions in the course of operations. Where such transactions are material, the board has a policy of entering into foreign currency contracts or currency matching to help manage currency risk. The group's objectives in managing the currency exposure arising from its net investments overseas are to maintain a low cost of borrowing, and to retain some potential for currency related appreciation, while partially hedging against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the Consolidated statement of total recognised gains and losses.

Notes to the financial statements (continued)

Interest rate profile

The group has financial assets denominated in both sterling and foreign currency deposits. These comprise cash balances, overdrafts and deposits at short-term rates.

	2003			2002		
	Floating rate financial assets	Financial assets on which no interest is earned	Total	Floating rate financial assets	Financial assets on which no interest is earned	Total
	£000	£000	£000	£000	£000	£000
Sterling	(149)	-	(149)	(880)	-	(880)
US Dollar	1,104	-	1,104	2,194	-	2,194
Euro	2,214	-	2,214	2,704	-	2,704
Japanese Yen	786	-	786	1,081	-	1,081
Norwegian Kroner	139	-	139	81	-	81
Korean Won	801	-	801	569	-	569
Malaysian Ringgit	128	-	128	459	-	459
Indian Rupee	43	-	43	84	-	84
Swedish Kroner	-	17	17	-	5	5
Hong Kong Dollar	-	28	28	-	40	40
Other currencies	-	18	18	-	19	19
Total	5,066	63	5,129	6,292	64	6,356

Interest rate profile of financial liabilities

	2003			2002		
	Floating rate	Fixed rate	Total	Floating rate	Fixed rate	Total
	£000	£000	£000	£000	£000	£000
Sterling	199	214	413	-	-	-

The floating rate financial liability comprises a bank overdraft facility bearing interest at 5.54%.

The fixed rate financial liability comprises two finance leases with weighted average interest rate of 12%.

The maturity profile of the group's financial liabilities is as follows:

	2003	2002
	£000	£000
In one year or less, or on demand	199	-
Between one and two years	92	-
Between two and three years	122	-
	413	-

17 Derivatives and other financial instruments (continued)

Currency exposures

The table below shows the group's transactional currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the group that are not denominated in the functional currency of the operating unit. As at 31 March 2003 and 31 March 2002 these exposures (including those arising on short term debtors and creditors) were as follows:

Functional currency of group operation	US Dollar	Euro	Total
2003			
Sterling (£000)	2,329	358	2,687
Malaysian Ringgit (MYR 000's)	50	-	50
2002			
Sterling (£000)	1,743	2,158	3,901
Malaysian Ringgit (MYR 000's)	321	-	321

Borrowing facilities

The group had undrawn committed borrowing facilities at 31 March 2003 of £1,500,000 (2002 - £1,000,000) in respect of which all conditions precedent had been met. This facility is due for review on 30 September 2003.

Fair values

The book values of the group's financial assets and liabilities consist of cash of £5,129,000 (2002 - £6,356,000), overdraft of £199,000 (2002 – £nil) and finance leases of £214,000 (2002 - £nil).

There is no material difference between the book value and fair value of the group's financial instruments in the current or the preceding year.

Gains and losses on hedges

The group enters into forward foreign currency contracts to minimise the currency exposures that arise on sales denominated in foreign currencies. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedge position matures. No material unrecognised gains or losses on hedged financial instruments existed at 31 March 2003 or 31 March 2002.

18 Provisions for liabilities and charges

	Group
Deferred tax:	£000
At 1 April 2002	533
Released during the year	(61)
At 31 March 2003	472

	Provided		Unprovided	
	2003	2002	2003	2002
	£000	£000	£000	£000
Accelerated capital allowances	480	533	-	-
Short term timing differences	(8)	-	-	-
Tax losses	-	-	(155)	-
	472	533	(155)	-

In addition, if the long leasehold property were to be sold at its current net book value, a tax liability of up to £270,000 (2002 - £276,000) may arise. No provision has been made for this liability as there is no intention to dispose of the property. If the property were to be sold in the future, the tax liability would probably be mitigated or deferred by available reliefs.

The company has no deferred tax liability.

19 Called-up share capital

	Group and company	
	2003	2002
	£000	£000
Authorised		
22,000,000 ordinary shares of 10p each	2,200	2,200
Allotted, called-up and fully paid		
17,047,150 (2002 - 17,036,650) ordinary shares of 10p each	1,705	1,704

During the year 10,500 ordinary shares with a nominal value of £1,050 were issued following the exercise of employee share options of 1,200 at an exercise price of 200.0p per share, 9,000 at an exercise price of 179.2p per share and 300 at an exercise price of 50.4p per share. This resulted in proceeds of £18,679 and a premium of £17,629.

19 Called-up share capital (continued)

Share options

Share options have been granted to certain employees of the group (excluding directors) and remain outstanding as follows:

Date of Grant	Number of options	Exercise price (p)
27 November 1996	93,500	200.0
27 November 1996	84,200	50.4
13 June 1997	25,000	230.0
16 March 1998	18,950	395.0
1 June 1998	150,000	272.5
16 March 1999	31,600	179.2
10 January 2000	100,000	300.9
30 March 2000	63,900	342.5
31 August 2000	10,000	491.8
19 January 2001	407,300	524.7
12 July 2001	112,200	479.5
6 August 2001	25,000	463.3

These options are normally exercisable in full or in part between the third and seventh anniversaries of the date of grant.

20 Reserves

Group	Share premium account £000	Profit and loss account £000
At 1 April 2002	7,300	7,293
Profit for the year	-	3,658
Dividends	-	(955)
Translation arising on consolidation	-	(437)
Share issues	18	-
At 31 March 2003	7,318	9,559

Included within profit and loss account reserves is goodwill of £3,934,000 which was directly eliminated against reserves in 1995.

20 Reserves (continued)

Company	Share premium account £000	Profit and loss account £000
At 1 April 2002	7,300	943
Share issues	18	-
Profit for the year	-	1,001
Dividends	-	(955)
At 31 March 2003	7,318	989

21 Reconciliation of movements in group shareholders' funds

	2003 £000	2002 £000
Profit for the financial year	3,658	3,365
Other recognised gains and losses relating to the year	(437)	(38)
	3,221	3,327
Dividends paid and proposed on equity shares	(955)	(921)
New shares issued	19	161
Net addition to shareholders' funds	2,285	2,567
Opening shareholders' funds	16,297	13,730
Closing shareholders' funds	18,582	16,297

22 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £000	2002 £000
Operating profit	5,618	4,924
Depreciation and amortisation charges	1,661	1,804
(Profit) / loss on disposal of fixed assets	(4)	143
Decrease / (increase) in stocks	200	(958)
(Increase) in debtors	(2,798)	(3,084)
(Decrease) / increase in creditors	(1,445)	1,306
Net cash inflow from operating activities	3,232	4,135

23 Analysis of cash flows

	2003 £000	2002 £000
Returns on investments and servicing of finance		
Interest received	53	40
Interest paid	(91)	(26)
Net cash (outflow)/inflow	(38)	14
Taxation		
UK corporation tax (paid) / received	(1,597)	43
Foreign tax paid	(526)	(1,245)
Net cash outflow	(2,123)	(1,202)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,793)	(1,628)
Purchase of intangible fixed assets	-	-
Proceeds from sale of tangible fixed assets	58	22
Net cash outflow	(1,735)	(1,606)
Financing		
Issue of ordinary share capital	19	161
Capital element of finance lease rental payments	(30)	-
Net cash (outflow)/inflow	(11)	161

24 Analysis and reconciliation of net funds

	1 April 2002 £000	Cash flow £000	Other non-cash movements £000	Exchange differences £000	31 March 2003 £000
Cash at bank and in hand	6,356	(1,398)	-	171	5,129
Bank overdraft	-	(199)	-	-	(199)
Cash	6,356	(1,597)	-	171	4,930
Finance leases	-	30	(244)	-	(214)
Net funds	6,356	(1,567)	(244)	171	4,716

24 Analysis and reconciliation of net funds (continued)

	2003 £000	2002 £000
(Decrease) / increase in cash in the year	(1,597)	588
Cash inflow from increase in lease financing	30	-
Change in net funds resulting from cash flows	(1,567)	588
New finance leases	(244)	-
Currency translation differences	171	148
Movement in net funds in year	(1,640)	736
Net funds at start of the year	6,356	5,620
Net funds at end of the year	4,716	6,356

25 Guarantees and other financial commitments

a) Pension arrangements
SSAP24 Disclosures

The group operates a defined benefit pension plan providing benefits based on final pensionable pay. This scheme was closed to new employees on 30 September 2003. Administration on behalf of the members is governed by a Trust Deed, and the funds are held and managed by professional investment managers who are independent of the group.

Contributions to the scheme are made in accordance with advice from an independent professionally qualified actuary at rates which are calculated to be sufficient to meet the future liabilities of the scheme. The employees' contributions are fixed as a percentage of salary, the balance being made up by the employer.

The most recent actuarial valuation was carried out as at 1 April 2001 using the projected unit method.

The main actuarial assumptions were that:

a) the return on scheme investments would be:
   past service 6.00%
   future service 6.25%
b) salaries would increase by 4.40% per annum
c) pensions in payment would increase by 2.40% per annum.

The market value of the assets of the scheme was £14,521,000 and the level of funding, being the actuarial value expressed as a percentage of the benefits accrued to members after allowing for expected future increases in earnings, was 98%.

This deficit, amounting to £314,000, is expected to be eliminated over the period to 2018 through increased employer contributions.

25 Guarantees and other financial commitments (continued)

Since the date of the actuarial valuation the group has closed the pension scheme to new entrants (with the option of re-opening if required). The group's actuarial advisers have confirmed that this event is unlikely to have had a significant effect on the position of the fund. Under the projected unit method the current service cost will increase as members approach retirement age.

The pension charge for the defined benefit schemes in the UK amounted to £1,167,000 (2002 - £982,000).

The group also operates a defined contribution scheme for UK, US, German, French and Norwegian employees for which the pension charge for the year amounted to £298,000 (2002 - £300,900).

FRS17 Disclosures

Additional disclosures regarding the group's defined benefit pension scheme are required under the transitional provisions of FRS17 "Retirement benefits" and these are set out below. The disclosures relate to the second year of the transitional provisions.

The valuation used for FRS17 disclosures has been based on the most recent actuarial valuation at 1 April 2001, as updated to 31 March 2003 by a qualified independent actuary, to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 March 2003 and 2002. Scheme assets are stated at their market values at the respective balance sheet dates.

	2003	2002
	%	%
Main assumptions:		
Rate of salary increases	4.5	4.8
Rate of increase in pensions in payment	2.5	2.8
Discount rate	5.5	6.0
Inflation assumption	2.5	2.8

The assets and liabilities of the scheme and the expected rates of return at 31 March are:

	2003		2002	
	Long-term rate of return Expected	Value	Long-term rate of return Expected	Value
	%	£000	%	£000
Equities	6.60	10,300	7.25	12,800
Bonds	3.60	1,700	4.25	1,800
Properties	2.75	600	3.00	800
Total market value of assets		12,600		15,400
Present value of scheme liabilities		(25,000)		(19,300)
Pension liability before deferred tax		(12,400)		(3,900)
Related deferred tax asset		3,700		1,200
Net pension liability		(8,700)		(2,700)

An analysis of the defined benefit cost for the year ended 31 March 2003 is as follows:

	£000
Current service cost	1,200
Past service cost	-
Total operating charge	1,200
Expected return on pension scheme assets	1,100
Interest on pension scheme liabilities	(1,200)
Total other finance cost	(100)
Actual return less expected return on pension scheme assets	(5,000)
Experience losses arising on scheme liabilities	-
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(3,400)
Actuarial loss recognised in the Statement of total recognised gains and losses	(8,400)

Notes to the financial statements (continued)

Analysis of movements in deficit during the year:

	£000
At 1 April 2002	(3,900)
Total operating charge	(1,200)
Total other finance cost	(100)
Actuarial loss	(8,400)
Exchange difference	-
Contributions	1,200
At 31 March 2003	(12,400)

The updated actuarial valuation at 31 March 2003 showed an increase in the deficit from £3.9 million to £12.4 million. No improvements in benefits were made in the year ended 31 March 2003 and contributions increased to £1.2 million (18.5% of pensionable pay). It has been agreed with the trustees that contributions for the next three years will remain at that level.

History of experience gains and losses:

	2003
Difference between expected return and actual return on pension scheme assets:	
- amount (£000)	(5,000)
- % of scheme assets	(40)
Experience (losses)/gains arising on scheme liabilities:	
- amount (£000)	-
- % of the present value of scheme liabilities	-
Total actuarial (loss)/gain recognised in the Statement of total recognised gains and losses	
- amount (£000)	(8,400)
- % of the present value of scheme liabilities	(34)

25 Guarantees and other financial commitments (continued)

b) Lease commitments

At 31 March 2003 the group had annual commitments under non-cancellable operating leases as follows:

	2003		2002	
	Land and buildings £000	Plant and machinery £000	Land and buildings £000	Plant and machinery £000
Expiring within one year	371	138	364	121
Expiring between two and five years	676	116	500	156
Expiring over five years	5	-	5	-
	1,052	254	869	277

c) Capital commitments

At the end of the year the group and company had capital commitments contracted for but not provided for of £757,000 (2002 - £12,000).

26 Related party transactions

There were no transactions with related parties in either year that require disclosure within these financial statements.

Directors	Richard King CBE *Chairman*
	Richard Longdon *Chief Executive*
	Paul Taylor *Finance Director*
	Tony Christian *Director*
	Colin Garrett *Non-Executive Director*
	David Mann *Non-Executive Director*
Secretary	Paul Taylor
Registered Office	High Cross Madingley Road Cambridge CB3 0HB
Registered Number	2937296
Auditors	Ernst & Young LLP Compass House 80 Newmarket Road Cambridge CB5 8DZ
Bankers	Barclays Bank plc 15 Bene't Street Cambridge CB2 3PZ
Solicitors	Mills & Reeve Francis House 112 Hills Road Cambridge CB2 1PH
Stockbroker and Financial Advisors	Hoare Govett Ltd 250 Bishopsgate London EC2M 4AA
Registrars	Capita Registrars Bourne House 34 Beckenham Road Beckenham, Kent BR3 4TU