

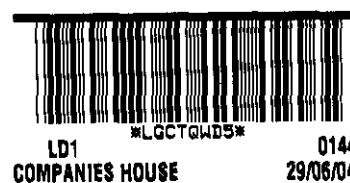
E2V Holdings Limited

COMPANY BALANCE SHEET at 31 March 2004

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Investments	12	51,935	54,422
CURRENT ASSETS			
Debtors	14	20,094	104
Cash at bank and in hand		-	50
		20,094	154
CREDITORS: amounts due within one year	15	(13,533)	(2,587)
NET CURRENT LIABILITIES		6,561	(2,433)
TOTAL ASSETS LESS CURRENT LIABILITIES		58,496	51,989
CREDITORS: amounts due after more than one year	16	(47,195)	(53,960)
		11,301	(1,971)
CAPITAL AND RESERVES			
Called up share capital	18	278	264
Share premium account	19	2,376	2,376
Profit and loss account	19	8,647	(4,611)
EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)	19	11,301	(1,971)

M Hannant
Finance Director

2004



E2V Holdings Limited

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2004

		<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>9 months</i> <i>ended</i> <i>31 March</i> <i>2003</i> <i>£000</i>
	<i>Notes</i>		
Net cash inflow from operating activities	25(a)	20,212	10,058
Returns on investments and servicing of finance			
Interest received		298	64
Interest paid		(2,928)	(1,682)
Issue costs on new long-term loans		-	(2,836)
		(2,630)	(4,454)
Taxation			
Corporation tax paid		(672)	(202)
Overseas tax paid		(316)	(836)
		(988)	(1,038)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(8,290)	(4,456)
Receipts from sales of tangible fixed assets		13	99
		(8,277)	(4,357)
Acquisitions and disposals			
Purchase of business	12	(2,016)	-
Purchase of subsidiary undertaking		-	(51,866)
Net cash acquired with subsidiary undertaking		-	2,459
		(2,016)	(49,407)
Net cash inflow/(outflow) before management of liquid resources and financing		6,301	(49,198)
Financing			
Issue of ordinary share capital		14	2,640
New long-term loans	25(b)	-	53,435
Long-term loan repayment	25(b)	(7,906)	-
		(7,892)	56,075
(Decrease)/increase in cash	25(b)	(1,591)	6,877

GROUP STATEMENT OF CASH FLOWS
for the year ended 31 March 2004

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		2004	2003
	Notes	£000	£000
(Decrease)/increase in cash		(1,591)	6,877
Cash flow from decrease/(increase) in loans		7,906	(53,435)
Decrease/(increase) in net debt resulting from cash flows	25(b)	6,315	(46,558)
Issue of loan note for non cash consideration	25(b)	-	(2,556)
Issue of payment in kind notes	25(b)	(1,743)	(1,128)
Issue costs on new long-term loans		-	2,836
Amortisation of debt issue costs	25(b)	(378)	(284)
Exchange differences		(732)	(79)
Movement in net debt		3,462	(47,769)
Opening net debt	25(b)	(47,769)	-
Closing net debt at 31 March	25(b)	(44,307)	(47,769)

NOTES TO THE FINANCIAL STATEMENTS
at 31 March 2004

1. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group financial statements consolidate the financial statements of E2V Holdings Limited and its subsidiary undertakings drawn up to 31 March. No profit and loss account is presented for E2V Holdings Limited as permitted by section 230 of the Companies Act 1985.

Depreciation

Freehold land is not depreciated and is held at historical cost. Depreciation is provided on all other tangible fixed assets at rates calculated to write off the original cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	50 years
Plant & machinery	-	3 to 10 years
Office equipment, fixtures and fittings	-	3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a maximum of 20 years. It will be reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the assets has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of 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.

Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

1. ACCOUNTING POLICIES (CONTINUED)

Stock

Stock is stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on an average basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Provisions

Provisions for the expected costs of maintenance and warranty claims are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a basis to reflect the proportion of the work carried out at the period end, by recording turnover and related costs (as defined in Stock above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the period in which they are first foreseen.

Deferred taxation

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

1. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Group

The balance sheets of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The profit and loss and cash flow of overseas subsidiary undertakings are translated at the average rate for the year. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on permanent intercompany loans with the same characteristics as equity, which are taken directly to reserves; and on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Derivative instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The group also uses interest rate swaps to adjust interest rate exposures.

The group considers its derivative instruments qualify for hedge accounting when the following criteria are met.

Forward foreign currency contracts

The criteria for forward foreign currency contracts are:

- the instrument must be related to a firm foreign currency commitment;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the group's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs.

Interest rate swaps

The group's criteria for interest rate swaps are:

- the instrument must be related to an asset or a liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa

Interest differentials are recognised by accruing the net interest payable. Interest rate swaps are not revalued to fair value or shown on the group balance sheet at the year end. If they are terminated early, the gain or loss is spread over the remaining maturity of the original instrument.

Pension scheme arrangements

The group contributes to group personal pension arrangements for its employees. The pension cost is the amount of contributions payable in the year (see note 21).

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of long-term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of long-term contracts is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract.

Turnover is attributable to two continuing activities, being the supply of electronic tubes and subsystems, as well as the supply of sensor components and subsystems. The acquisition of the Dynex sensor business during the year is considered immaterial for disclosure purposes, hence no analysis of continuing acquisitions is made.

An analysis of turnover, profit and net assets by activity is given below.

	<i>Year ended 31 March 2004 £000</i>	<i>9 months ended 31 March 2003 £000</i>
Group turnover		
Electronic Tubes		
- Medical and Science	16,506	11,735
- Aerospace and Defence	13,731	10,156
- Commercial and Industrial	23,850	21,965
	<u>54,087</u>	<u>43,856</u>
Sensors		
- Medical and Science	12,350	8,776
- Aerospace and Defence	16,910	12,947
- Commercial and Industrial	14,219	5,196
	<u>43,479</u>	<u>26,919</u>
Total	<u>97,566</u>	<u>70,775</u>
Operating profit		
- Electronic Tubes	13,539	14,593
- Sensors	11,393	7,442
- Central Overheads	(15,077)	(15,172)
	<u>9,855</u>	<u>6,863</u>
Net assets/(liabilities)		
- Electronic Tubes	13,006	10,966
- Sensors	15,974	13,261
- Central unallocated net liabilities	(21,916)	(19,674)
	<u>7,064</u>	<u>4,553</u>

Central unallocated net liabilities comprise certain fixed assets, debtors, creditors, loan notes, net debt and taxation.

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

2. TURNOVER (CONTINUED)

An analysis of turnover, profit and net assets by geographical market is given below.

	<i>Year ended 31 March 2004 £000</i>	<i>9 months ended 31 March 2003 £000</i>
Group turnover		
Turnover by destination:		
United Kingdom	29,893	24,122
United States	30,313	24,891
Rest of the world	37,360	21,762
	<u>97,566</u>	<u>70,775</u>
Turnover by origin:		
United Kingdom	60,566	41,324
United States	30,910	24,891
Rest of the world	6,090	4,560
	<u>97,566</u>	<u>70,775</u>
Operating profit		
United Kingdom	8,649	5,562
United States	1,062	976
Rest of the world	144	325
	<u>9,855</u>	<u>6,863</u>
Net assets		
United Kingdom	5,437	2,696
United States	1,275	1,636
Rest of the world	352	221
	<u>7,064</u>	<u>4,553</u>

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

3. OPERATING PROFIT

	<i>Year ended 31 March 2004 £000</i>	<i>9 months ended 31 March 2003 £000</i>
The operating profit is stated after charging:		
Depreciation of own fixed assets	5,419	3,633
Auditors' remuneration - audit services (company £10,000, 2003: £9,000)	84	55
- non-audit services	11	-
Operating lease rentals - land and buildings	182	143
- plant and machinery	355	395
Amortisation of patents and goodwill	1,084	703
Environmental provision	402	-
Restructuring costs	124	675
Product warranty costs	2,632	901
	<u> </u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

The remuneration of the directors is as follows:

	<i>Basic salary and fees £</i>	<i>Benefits £</i>	<i>Performance related bonuses £</i>	<i>Year ended 31 March 2004 £</i>	<i>9 months ended 31 March 2003 £</i>
Executive directors:					
K Attwood	146,000	10,533	33,030	189,563	149,655
M Hannant	83,600	8,733	18,350	110,683	59,261
Non-executive directors:					
M Hassall	40,000	-	-	40,000	28,821
I Slaughter	25,000	-	-	25,000	18,013
J Davison	-	-	-	-	-
I Godden	25,000	-	-	25,000	-
	<u>319,600</u>	<u>19,266</u>	<u>51,380</u>	<u>390,246</u>	<u>255,750</u>

The group has contracted for consultancy services with Horne Roberts, a company in which Messrs Hassall and Slaughter have an interest. Amounts paid under the agreement for the year ended 31 March 2004 amounted to £105,415 (period ended 31 March 2003: £284,988). The group has also contracted for consultancy services with Roland Berger, a company in which I Godden has an interest. Amounts paid under the agreement amounted to £38,150 (period ended 31 March 2003: £nil).

The group paid fees of £27,500 (period ended 31 March 2003: £nil) to 3i Group plc for the services of J Davison.

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

4. DIRECTORS' EMOLUMENTS (CONTINUED)

Company contributions to directors' stakeholder pensions at the end of the financial year are as follows:

	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>9 months ended</i> <i>31 March</i> <i>2003</i> <i>£000</i>
K Attwood	9	9
M Hannant	5	4
	<u> </u>	<u> </u>

5. STAFF COSTS

	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>9 months ended</i> <i>31 March</i> <i>2003</i> <i>£000</i>
Wages and salaries	30,571	24,393
Social security costs	3,400	2,578
Other pension costs (see note 21)	1,080	729
	<u>35,051</u>	<u>27,700</u>

The average monthly number of employees
(including executive directors) during the period was as follows:

	<i>No.</i>	<i>No.</i>
Manufacturing	881	911
Administration	411	428
	<u>1,292</u>	<u>1,339</u>

6. INTEREST PAYABLE

	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£000</i>	<i>9 months ended</i> <i>31 March</i> <i>2003</i> <i>£000</i>
Interest payable on overdrafts and bank loans	3,134	2,298
Interest payable on other loans	1,998	1,243
Amortisation of issue costs on debt	378	284
	<u>5,510</u>	<u>3,825</u>

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 March 2004

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Year ended 31 March 2004 £000</i>	<i>9 months ended 31 March 2003 £000</i>
(a) The tax charge represents:		
UK corporation tax - current	1,177	690
- prior year	(268)	-
	<hr/>	<hr/>
Foreign tax	909	690
	390	508
	<hr/>	<hr/>
Total current tax (7(b))	1,299	1,198
Deferred tax - origination and reversal of timing differences	63	(101)
	<hr/>	<hr/>
	1,362	1,097
	<hr/>	<hr/>

(b) The tax assessed on the profit on ordinary activities for the period varies from the standard rate of corporation tax in the United Kingdom ('UK'). The differences are explained below:

	<i>Year ended 31 March 2004 £000</i>	<i>9 months ended 31 March 2003 £000</i>
Profit on ordinary activities before tax	4,643	3,102
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	1,393	931
Effect of:		
Disallowed expenses and non-taxable income	318	167
Research and development tax credit	(192)	(125)
Depreciation in (arrears)/excess of capital allowances	(45)	119
Higher taxes on overseas earnings	111	184
Other timing differences	(18)	(78)
Tax over provided in previous years	(268)	-
	<hr/>	<hr/>
Current tax charge for the period	1,299	1,198
	<hr/>	<hr/>

(c) Deferred tax is provided at 30% in the financial statements as follows:

	<i>2004 £000</i>	<i>2003 £000</i>
Capital allowances in advance of depreciation	425	379
Short term timing differences	-	(17)
	<hr/>	<hr/>
Provision for deferred tax (note 17)	425	362
	<hr/>	<hr/>

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the financial statements of the parent company is £13,258,000 (2003: loss £4,611,000).

9. EARNINGS PER ORDINARY SHARE

The calculation of earnings per share is based on earnings of £3,281,000 (2003: £2,005,000) being the profit for the year and on 2,647,728 (2003: 2,638,637) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

10. INTANGIBLE FIXED ASSETS

	<i>Patents</i> £000	<i>Goodwill</i> £000	<i>Total</i> £000
Cost:			
At 31 March 2003	107	11,296	11,403
Arising on acquisition in year	-	1,491	1,491
Adjustment for fair values of net assets acquired	-	402	402
At 31 March 2004	107	13,189	13,296
Amortisation:			
At 31 March 2003	5	698	703
Provided during the year	6	1,078	1,084
At 31 March 2004	11	1,776	1,787
Net book value:			
At 31 March 2004	96	11,413	11,509
At 31 March 2003	102	10,598	10,700

The adjustment above of £402,000 reflects an additional provision arising on the acquisition of the subsidiary undertakings from Marconi Plc in 2002. This has been determined following an environmental study and report performed in the current year. The effect of this adjustment has been to increase goodwill on acquisition and provisions by £402,000.

Intangible assets are being amortised as follows:

- Goodwill of £11,299,000 arising on the acquisition of the Marconi Applied Technologies Division is being amortised evenly over the directors estimate of its useful economic life of 12 years; and
- Goodwill of £399,000 arising on the acquisition of the High Power Satcom business from Siemens in 1999 was being amortised evenly over its estimated useful economic life of 20 years. After an impairment review, this has been adjusted to 15 years. The outstanding balance will be amortised evenly over the remaining 10 years.
- Goodwill of £1,491,000 arising on the acquisition during the year of the automotive security business from Dynex is being amortised evenly over the directors' estimate of its useful economic life of 6 years.
- Patents were being amortised evenly over their useful economic life of 20 years. After an impairment review this has been adjusted to 15 years. The outstanding balance will be amortised evenly over the remaining 10 years.

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

11. TANGIBLE FIXED ASSETS

Group	<i>Freehold land & buildings</i>	<i>Plant & machinery</i>	<i>Office equipment, fixtures & fittings</i>	<i>Payments on account & assets under construction</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Cost:					
At 31 March 2003	1,013	16,255	1,915	2,642	21,825
Additions	-	2,578	1,746	3,966	8,290
Additions from acquisition of business	-	295	5	-	300
Disposals	-	(30)	(509)	-	(539)
Reclassifications between categories	4	(715)	711	-	-
Transfers from payments on account	-	1,153	1,450	(2,603)	-
At 31 March 2004	1,017	19,536	5,318	4,005	29,876
Depreciation:					
At 31 March 2003	110	2,913	40	-	3,063
Provided during the year	101	3,835	1,483	-	5,419
Disposals	-	(30)	(496)	-	(526)
Reclassifications between categories	-	(548)	548	-	-
At 31 March 2004	211	6,170	1,575	-	7,956
Net book value:					
At 31 March 2004	806	13,366	3,743	4,005	21,920
At 31 March 2003	903	13,342	1,875	2,642	18,762

The company does not have any tangible fixed assets.

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

12. INVESTMENTS

Company

	<i>Equity interests in subsidiary undertakings</i>	<i>Loans to subsidiary undertakings</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 April 2003	47,922	6,500	54,422
Additions	13	-	13
Repayment of loan	-	(2,000)	(2,000)
At 31 March 2004	47,935	4,000	51,935

During the year, an additional investment was made in E2V Technologies SAS.

Interests in group undertakings

<i>Name of undertaking</i>	<i>Country of incorporation</i>	<i>Description of shares held</i>	<i>Percentage of shares held</i>
E2V Technologies Limited	England & Wales	Ordinary shares	100%
E2V Technologies Inc.	USA	Common stock	100%
E2V Technologies SAS	France	Ordinary shares	100%
E2V Technologies Canada Limited	Canada	Ordinary shares	100%
E2V Technologies GmbH	Germany	Ordinary shares	100%
Redwood 2002 Inc	USA	Common Stock	100%
EEV Limited	England & Wales	Ordinary shares	100%

Group undertakings are all held by E2V Holdings Limited, with the exception of E2V Technologies Canada Limited and E2V Technologies GmbH which are held through E2V Technologies Limited, and E2V Technologies Inc which is held through Redwood 2002 Inc..

The principal activities of the subsidiary companies are as follows:

E2V Technologies Limited – Electrical Component Manufacturer
E2V Technologies Inc. – Sales & Distribution
E2V Technologies SAS – Sales & Distribution
E2V Technologies Canada Limited – Sales & Distribution
E2V Technologies GmbH – Sales & Distribution
Redwood 2002 Inc – Holding Company
EEV Limited – Dormant

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

12. INVESTMENTS (CONTINUED)

On 23 August 2003 the company acquired the trade and assets of Dynex's automotive security business for a consideration of £2,016,000.

Net assets at date of acquisition:

	<i>Book value</i>	<i>Fair value adjustments</i>	<i>Fair value to group</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Tangible fixed assets	-	300	300
Stocks	286	-	286
Debtors	-	-	-
Cash	-	-	-
Creditors due within one year	(46)	-	(46)
Provisions for liabilities and charges	(15)	-	(15)
Net assets	225	300	525
Goodwill arising on acquisition	1,791	(300)	1,491
	2,016	-	2,016

Discharged by:

	<i>£000</i>
Cash	1,970
Costs associated with the acquisition	46
	2,016

The resulting goodwill is being amortised over the directors' estimate of its useful economic life of six years.

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

13. STOCK

	<i>Group</i>	
	2004	2003
	£000	£000
Raw materials and consumables	7,367	5,601
Work in progress	6,799	5,704
Contracts work in progress	2,631	1,189
Contracts payments on account	(799)	(239)
Finished goods and goods for resale	5,659	5,481
	<u>21,657</u>	<u>17,736</u>

14. DEBTORS

	<i>Group</i>		<i>Company</i>	
	2004	2003	2004	2003
	£000	£000	£000	£000
Trade debtors	22,160	22,753	-	-
Other debtors	540	636	13	17
Prepayments and accrued income	2,613	818	81	87
Corporation tax	-	152	-	-
Dividends receivable from subsidiary undertakings	-	-	20,000	-
	<u>25,313</u>	<u>24,359</u>	<u>20,094</u>	<u>104</u>

15. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2004	2003	2004	2003
	£000	£000	£000	£000
Current instalments due on loans	1,587	607	1,587	607
Bank overdraft	-	-	10,268	-
Payments received on account	3,448	1,184	-	-
Trade creditors	11,839	4,800	-	-
Amounts owed to group undertakings	-	-	-	786
Other taxation and social security costs	863	760	30	17
Other creditors	1,724	426	-	-
Accruals and deferred income	5,882	8,263	1,648	1,177
Corporation tax	209	-	-	-
	<u>25,552</u>	<u>16,040</u>	<u>13,533</u>	<u>2,587</u>

E2V Holdings Limited

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16. CREDITORS: amounts falling due after more than one year

Loans	<i>Group and company</i>	
	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Amounts falling due:		
In more than one year but not more than two years	2,460	1,872
In more than two years but not more than five years	14,582	14,516
In more than five years	30,153	37,572
	<u>47,195</u>	<u>53,960</u>
Details of loans not wholly repayable within five years are as follows:		
	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Secured loan 2% over LIBOR (2003 : 2.25%)		
Repayable 1 May 2008	-	3,800
Repayable 1 November 2008	-	1,800
Secured loan 2.5% over LIBOR (2003 : 2.75%)		
Repayable 12 July 2009	4,366	5,000
Secured loan 3.5% over LIBOR		
Repayable 12 January 2010	4,366	5,000
9% loan notes repayable in 6 monthly instalments from June 2010 to June 2012	21,706	19,964
6% unsecured loan notes with no fixed repayment date	-	2,671
	<u>30,438</u>	<u>38,235</u>
less: issue costs	(285)	(663)
	<u>30,153</u>	<u>37,572</u>

The bank loans are secured by a floating charge over the net assets of the group.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Deferred</i>			<i>Product</i>	<i>Group</i>
	<i>taxation</i>	<i>Restructuring</i>	<i>Environmental</i>	<i>warranty</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 31 March 2003	362	121	806	2,513	3,802
Arising during the year	63	124	402	2,632	3,221
Fair value adjustment (see note 10)	-	-	402	-	402
On acquisition made during the year	-	-	-	15	15
Utilised	-	(194)	(208)	(1,975)	(2,377)
At 31 March 2004	<u>425</u>	<u>51</u>	<u>1,402</u>	<u>3,185</u>	<u>5,063</u>

In accordance with FRS19 provision has been made in full for deferred taxation.

Environmental

A provision is recognised for expected environmental costs relating to UK manufacturing operations. It is expected that most of these costs will be incurred in the next financial year, and all will have been incurred within two years of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

17. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Product Warranty

A provision is recognised for expected claims on products sold in the warranty period. The warranty period can be date based or hours usage based. It is expected that most of these costs will be incurred in the next financial year, and all will have been incurred within four years of the balance sheet date.

18. SHARE CAPITAL

	<i>Authorised</i>		<i>Authorised</i>	
	2004	2004	2003	2003
	No.	£000	No.	£000
Ordinary shares of 10p each	409,091	41	409,091	41
A Ordinary shares of 1p each	2,045,455	20	2,045,455	20
B Ordinary shares of £1 each	272,727	273	272,727	273
		<u>334</u>		<u>334</u>
		=====		=====
	<i>Allotted, called up and fully paid</i>		<i>Allotted, called up and fully paid</i>	
	2004	2004	2003	2003
	No.	£000	No.	£000
Ordinary shares of 10p each	388,636	39	388,636	39
A Ordinary shares of 1p each	2,045,455	20	2,045,455	20
B Ordinary shares of £1 each	218,182	219	204,546	205
		<u>278</u>		<u>264</u>
		=====		=====

During the year, 13,636 B Ordinary shares were issued with an aggregate nominal value of £13,636 for cash of £13,772.

All three classes of shares carry equal voting rights.

All three classes of shares are treated as one class of share in respect of dividend rights.

On a return of assets on liquidation or capital reduction or otherwise, the assets of the company remaining after the payment of its liabilities shall be applied in the following order of priority:

- First in paying to the holders of the A Ordinary shares £1.00 per share together with a sum equal to any arrears or accruals of any dividend declared;
- Second in paying to the holders of B Ordinary shares and the Ordinary shares, equally as if they constituted one class of share, £1.00 per share in the case of the Ordinary shares and £1.01 per share in the case of the B Ordinary shares, in each case together with a sum equal to any arrears or accruals of any dividend declared;
- The balance of the assets shall be distributed amongst the holders of the Equity Shares (equally as if they were one class of share) in proportion to the numbers of A Ordinary shares, B Ordinary shares and Ordinary shares held by them respectively.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS/(DEFICIT) AND MOVEMENTS ON RESERVES

<i>Group</i>	<i>Share capital £000</i>	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholders' funds £000</i>
At incorporation	-	-	-	-
Issue of shares	264	2,376	-	2,640
Profit for the period	-	-	2,005	2,005
Exchange differences	-	-	(92)	(92)
At 31 March 2003	264	2,376	1,913	4,553
Issue of shares	14	-	-	14
Profit for the year	-	-	3,281	3,281
Exchange differences	-	-	(784)	(784)
At 31 March 2004	278	2,376	4,410	7,064

<i>Company</i>	<i>Share capital £000</i>	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholders' funds/(deficit) £000</i>
At incorporation	-	-	-	-
Issue of shares	264	2,376	-	2,640
Loss for the period	-	-	(4,611)	(4,611)
At 31 March 2003	264	2,376	(4,611)	(1,971)
Issue of shares	14	-	-	14
Profit for the year	-	-	13,258	13,258
At 31 March 2004	278	2,376	8,647	11,301

20. OBLIGATIONS UNDER OPERATING LEASES

At 31 March 2004 the group had annual commitments under non-cancellable operating leases as follows:

	<i>Land and buildings 2004 £000</i>	<i>Other 2004 £000</i>	<i>Land and buildings 2003 £000</i>	<i>Other 2003 £000</i>
Operating leases which expire:				
Within one year	-	218	69	77
In two to five years	182	163	139	304
	182	381	208	381

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

21. PENSIONS

The group operates three defined contribution pension schemes, the E2V Technologies Directors Standard Life Pension Scheme, the E2V Technologies Employees Norwich Union Pension Scheme and the E2V Technologies Inc 401K Pension Scheme. The costs incurred during the year were £1,080,000 (2003: £729,000). There were no outstanding contributions at 31 March 2004 (2003: £nil).

22. RELATED PARTY TRANSACTIONS

The group has contracted for consultancy services with Horne Roberts, a company in which Messrs Hassall and Slaughter have an interest. Amounts paid under the agreement for the year amount to £105,415 (2003: £284,988), and the group owed £nil under the agreement at 31 March 2004 (2003: £19,500).

The group has contracted for consultancy services with Roland Berger, a company in which Ian Godden has an interest. Amounts paid under the agreement for the year amount to £38,150 (2003 : £nil), and the group owed £nil under the agreement at 31 March 2004 (2003 : £nil).

23. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements amounted to £2,622,000 (2003: £2,346,000) for the group and £nil (2003: £nil) for the company.

24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The group's principal financial instruments, other than derivatives, comprise bank loans, loan notes and cash. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations.

The group also enters into derivative transactions (principally interest rate swaps and forward currency contracts). The purpose is to manage the interest rate and currency risks arising from the group's operations and its sources of finance.

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 each of these risks and they are summarised below.

Interest rate risk

The group has sterling denominated borrowings at both fixed and floating rates of interest and uses interest rate swaps to generate the desired interest profile and to manage the group's exposure to interest fluctuations. The group's policy is to maintain as much of its borrowings as possible at fixed rates of interest to minimise this exposure. At the year end, 100% (2003: 100%) of the group's borrowings were at fixed rates of interest after taking account of interest rate swaps. The terms of the interest rate swap match the terms of the floating rate loans to maximise the effectiveness of the hedge.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans and loan notes. The group's policy is to use funds in excess of the ongoing operating requirements to make early repayments against the bank borrowings on an annual basis.

The group's objective is to maintain a positive cash balance at a level adequate for daily operations while retaining the option to use overdraft facilities for short term flexibility as necessary.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

The group has operations in the United States, France, Canada and Germany. As a result, the group's balance sheet can be affected by movements in the sterling exchange rates with each of those countries. The group does not currently hedge against this exposure, other than using natural hedges where appropriate, such as purchasing components in US dollars or Euros.

The group has transactional currency exposures. Such exposures arise from sales by an operating unit in currencies other than the unit's functional currency. The group sells approximately 70% of its sales outside the UK much of which is non-sterling and therefore subject to foreign exchange movements as all product is manufactured in the UK. The group manages its transactional currency exposures centrally by using of forward currency contracts to minimise these currency exposures. The forward currency contracts must be in the same currency as the hedged item. The majority of these contracts are entered into to hedge against cash received on US\$ sales.

At 31 March 2004, the group had hedged 100% of its forecast US\$ cash flow, extending to 31 March 2005. The foreign exchange strategy is set by the directors and is operated within these parameters with the assistance of specialist foreign exchange advisors.

With the exception of the analysis of currency exposures, the disclosures below exclude short-term debtors and creditors.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group as at 31 March is as follows:

	<i>Fixed rate financial liabilities £000</i>
2004	
Sterling	48,782
2003	
Sterling	54,567

	<i>Fixed rate financial liabilities</i>	
	<i>Weighted average interest rate</i>	<i>Weighted average period for which rate is fixed</i>
Currency	%	Years
2004		
Sterling	8.7	5.2
2003		
Sterling	8.7	5.9

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

The amounts shown in the tables above take into account the interest rate swap used to manage the interest rate profile of financial liabilities.

The floating rate financial liabilities comprise sterling denominated bank loans that bear interest at rates based on LIBOR plus an average of 3.6%, which are then fixed through the use of interest rate swaps.

Interest on some of the financial liabilities is converted into payment in kind notes in accordance with the terms of the loan agreement.

The interest rate profile of the financial assets of the group as at 31 March is as follows:

	<i>Floating rate financial assets £000</i>
2004	
Sterling	1,635
US dollar	1,286
Euro	1,554
Total	<u>4,475</u>
2003	
Sterling	3,914
US dollar	1,935
Euro	949
Total	<u>6,798</u>

Floating rate financial assets comprise cash deposits bearing interest at either daily rates or seven day rates.

Currency exposures

Gains and losses arising from the group's net investment overseas (in other words, its structural currency exposures) are recognised in the statement of total recognised gains and losses.

The table below shows the group's currency exposures; in other words, those transactional (or non-structural) 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 monetary liabilities of the group that are not denominated in the operating (or 'functional') currency of the operating unit involved.

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

At 31 March, these currency exposures are as follows:

	<i>Net foreign currency monetary assets/(liabilities)</i>			
	<i>Sterling</i>	<i>US dollar</i>	<i>Other</i>	<i>Total</i>
<i>Functional currency of group operations</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
2004				
Sterling	-	(158)	492	334
Other	405	-	-	405
	<u>405</u>	<u>(158)</u>	<u>492</u>	<u>739</u>
2003				
Sterling	-	833	374	1,207
Other	458	-	-	458
	<u>458</u>	<u>833</u>	<u>374</u>	<u>1,665</u>

The amounts shown in the table above take into account the effect of forward foreign currency contracts entered into to manage these currency exposures.

At 31 March, the group also held open various forward foreign currency contracts taken out to hedge future firm foreign currency commitments.

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 March is as follows:

	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
In one year or less, or on demand	1,587	607
In more than one year, but not more than two	2,460	1,872
In more than two years, but not more than five	14,582	14,516
In more than five years	30,153	37,572
	<u>48,782</u>	<u>54,567</u>

Borrowing facilities

The group has various overdraft facilities available to it, which are repayable on demand. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been met at that date are as follows:

	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Expiring in more than two years	5,695	4,832

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets and financial liabilities as at 31 March:

	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>2004</i>	<i>2004</i>	<i>2003</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Primary financial instruments</i>				
Short-term borrowings and current portions of long-term borrowings	(1,587)	(1,587)	(607)	(607)
Long-term borrowings	(47,195)	(47,195)	(53,960)	(53,960)
Cash and short-term deposits	4,475	4,475	6,798	6,798
<i>Derivative financial instruments held to manage the interest rate profile</i>				
Interest rate swaps	-	(114)	-	(981)
<i>Derivative financial instruments held to hedge the currency exposure on firm future commitments</i>				
Forward foreign currency contracts	-	1,336	-	(125)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Market values have been used to determine the fair value of interest rate swaps and forward foreign currency contracts. The fair value of all other items have been calculated by discounting the expected future cash flows at prevailing interest rates.

NOTES TO THE FINANCIAL STATEMENTS
at 31 March 2004

24. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Hedges

The group's policy is to hedge the following exposures:

- interest rate risk; and
- transactional currency exposures and currency exposures on future committed sales

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on financial instruments used for hedging are as follows:

	<i>Gains</i> £000	<i>Losses</i> £000	<i>Total</i> £000
2004			
Gains and losses arising in previous years that were recognised in 2004	18	(143)	(125)
	=====	=====	=====
Gains and losses unrecognised at 31 March 2004	1,336	-	1,336
	=====	=====	=====
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2005	1,161	-	1,161
	=====	=====	=====
2003			
Gains and losses arising in previous years that were recognised in 2003	8	(328)	(320)
	=====	=====	=====
Gains and losses unrecognised at 31 March 2003	18	(143)	(125)
	=====	=====	=====
Of which:			
Gains and losses expected to be recognised in the profit and loss account in 2004	18	(143)	(125)
	=====	=====	=====

E2V Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2004

25. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004 £000	2003 £000
Operating profit	9,855	6,863
Depreciation and impairment of tangible fixed assets	5,419	3,633
Amortisation of patents	6	5
Amortisation of goodwill	1,078	698
Increase in prepayments on contracts	2,264	166
Increase in debtors	(1,106)	(6,203)
Increase/(decrease) in stocks	(3,921)	3,669
Increase in creditors	5,672	1,012
Increase in provisions	945	215
Net cash inflow from operating activities	20,212	10,058

Within net cash inflows from operating activities were cash outflows of £208,000 (2003: £nil) in respect of environmental costs, £60,000 (2003: £257,000) in respect of costs associated with the management buy-out and £194,000 (2003: 644,000) in respect of restructuring costs.

(b) Analysis of net debt

	At 31 March 2003 £000	Cash flow £000	Interest converted to loan notes £000	Issue costs £000	Exchange differences £000	At 31 March 2004 £000
Cash	6,798	(1,591)	-	-	(732)	4,475
Loans	(54,567)	7,906	(1,743)	(378)	-	(48,782)
	(47,769)	6,315	(1,743)	(378)	(732)	(44,307)