

Report of the independent auditors to the shareholders of Invensys plc

We have audited the Group's accounts for the year ended 31 March 2003 which comprise the consolidated profit and loss account, consolidated balance sheet, Company balance sheet, consolidated cash flow statement, consolidated statement of total recognised gains and losses, reconciliation of movements in consolidated shareholders' funds, accounting policies and the related notes 1 to 29. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the remuneration report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts and the part of the 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 accounts give a true and fair view and whether the accounts and the part of the 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 accounts, 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 Company 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 Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited accounts. This other information comprises the directors' report, unaudited part of the remuneration report, the financial summary and the other information listed on the contents page. 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.

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 remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts and the part of the 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 accounts and the part of the remuneration report to be audited.

Opinion

In our opinion:

- the accounts 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 loss of the Group for the year then ended; and
- the accounts and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
London
28 May 2003

Consolidated profit and loss account

For the year ended 31 March	Notes	2003 £m	2002 £m
Turnover			
Continuing operations		4,258	4,623
Discontinued operations		760	2,349
	1	5,018	6,972
Operating profit before exceptional items, goodwill amortisation and goodwill impairment			
Continuing operations		250	312
Discontinued operations		80	237
	1	330	549
Operating exceptional items			
Restructuring costs	2	(119)	(223)
Market related write downs	2	–	(76)
	1	(119)	(299)
Operating profit before goodwill amortisation and goodwill impairment		211	250
Goodwill amortisation	1	(122)	(124)
Goodwill impairment	2	(585)	–
Operating (loss)/profit		(496)	126
Share of operating profits of associated undertakings			
Discontinued operations	7	–	2
Total operating (loss)/profit			
Continuing operations	3	(572)	(63)
Discontinued operations	3	76	191
	3	(496)	128
Corporate exceptional items			
Fundamental reorganisation costs	2	–	(172)
Costs of closure	2	(29)	(45)
Loss on sale of fixed assets	2	(12)	(34)
Loss on disposal of operations	2	(741)	(565)
Loss on ordinary activities before interest and taxation	1	(1,278)	(688)
Net interest payable and similar charges	8	(113)	(170)
Loss on ordinary activities before taxation	4	(1,391)	(858)
Tax on loss on ordinary activities	9	(57)	(9)
Loss on ordinary activities after taxation		(1,448)	(867)
Minority interests – equity		6	(2)
Loss for the financial year	24	(1,442)	(869)
Dividends	11	(35)	(70)
Retained loss for the financial year		(1,477)	(939)
Loss per share (basic and diluted)	12	(41.2)p	(24.8)p
Earnings per share (continuing operations before exceptional items, goodwill amortisation and goodwill impairment)	12	2.2p	2.8p
Average exchange rates for the year			
US\$ to £1		1.54	1.43
Euro to £1		1.56	1.62
Yen to £1		188.14	179.68

The results for the financial year have been translated into sterling at the appropriate average exchange rates.

Consolidated balance sheet

At 31 March	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets – goodwill	13	746	1,512
Tangible assets	14	880	1,515
Investments in associated undertakings	15	4	14
Other investments	15	30	59
		1,660	3,100
Current assets			
Stocks	16	489	824
Debtors: amounts falling due within one year	17	1,054	1,490
Debtors: amounts falling due after more than one year	17	529	510
Investments	15	31	33
Cash and short-term deposits	28	365	506
		2,468	3,363
Creditors: amounts falling due within one year			
Short-term borrowings	18	(136)	(1,066)
Other creditors	18	(1,483)	(1,748)
		(1,619)	(2,814)
Net current assets		849	549
Total assets less current liabilities		2,509	3,649
Creditors: amounts falling due after more than one year			
Long-term borrowings	19	(1,785)	(2,456)
Other creditors	19	(84)	(117)
		(1,869)	(2,573)
Provisions for liabilities and charges	22	(557)	(686)
	1	83	390
Capital and reserves			
Called up share capital	23	875	875
Share premium account	24	15	15
Capital redemption reserve	24	83	83
Capital reserve	24	2,047	210
Exchange variation reserve	24	(501)	(417)
Profit and loss account	24	(2,622)	(622)
Shareholders' (deficit)/funds – equity		(103)	144
Minority interests – including non-equity	25	186	246
		83	390

These accounts were approved by the directors on 28 May 2003 and are signed on their behalf by:

Lord Marshall of Knightsbridge
Chairman

R N Haythornthwaite
Chief Executive

A N Hennah
Chief Financial Officer

Year end exchange rates

US\$ to £1	1.58	1.42
Euro to £1	1.45	1.63
Yen to £1	187.43	188.73

The balance sheet has been translated into sterling at appropriate year end exchange rates.

Consolidated cash flow statement

For the year ended 31 March	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	28	210	536
Returns on investments and servicing of finance	28	(115)	(170)
Taxation	28	(62)	(43)
Capital expenditure and financial investment	28	(76)	(129)
Acquisitions and disposals	28	1,446	209
Equity dividends paid		(71)	(217)
Cash inflow before use of liquid resources and financing		1,332	186
Management of liquid resources	28	69	(104)
Financing			
Decrease in debt	28	(1,417)	–
(Decrease)/increase in cash in year		(16)	82

Reconciliation of net cash flow to movement in net debt

For the year ended 31 March	Notes	2003 £m	2002 £m
(Decrease)/increase in cash in year		(16)	82
Cash outflow from decrease in debt	28	1,417	–
Cash (inflow)/outflow from (decrease)/increase in liquid resources	28	(69)	104
Change in net debt resulting from cash flows	28	1,332	186
Short-term deposits, loans and finance leases acquired/divested in respect of the acquisition/disposal of subsidiary undertakings	28	15	2
New finance leases	28	–	(1)
Exchange movements	28	113	15
Movement in net debt in year		1,460	202
Net debt at beginning of year	28	(3,016)	(3,218)
Net debt at end of year	28	(1,556)	(3,016)

Consolidated statement of total recognised gains and losses

For the year ended 31 March	Notes	2003 £m	2002 £m
Loss for the financial year	24	(1,442)	(869)
Currency translation differences on foreign currency net investments, net of tax	24	17	(52)
FRS 19 restatement		–	(137)
Total recognised losses since last annual report		(1,425)	(1,058)

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 March	Notes	2003 £m	2002 £m
Loss for the financial year	24	(1,442)	(869)
Dividends	11	(35)	(70)
		(1,477)	(939)
Currency translation differences on foreign currency net investments, net of tax	24	17	(52)
Goodwill written back on disposals	24	1,213	447
		(247)	(544)
Opening shareholders' funds		144	688
Closing shareholders' (deficit)/funds		(103)	144

Company balance sheet

At 31 March	Notes	2003 £m	2002 £m
Fixed assets			
Tangible assets	14	–	2
Investments	15	4,505	8,739
		4,505	8,741
Current assets			
Debtors: amounts falling due within one year	17	11,973	12,459
Debtors: amounts falling due after more than one year	17	2	2
Cash and short-term deposits		16	119
		11,991	12,580
Creditors: amounts falling due within one year			
Short-term borrowings	18	(316)	(852)
Other creditors	18	(11,436)	(11,382)
		(11,752)	(12,234)
Net current assets		239	346
Total assets less current liabilities		4,744	9,087
Creditors: amounts falling due after more than one year			
Long-term borrowings	19	(1,741)	(2,353)
Other creditors	19	(995)	(497)
		(2,736)	(2,850)
		2,008	6,237
Capital and reserves			
Called up share capital	23	875	875
Share premium account	24	15	15
Capital redemption reserve	24	83	83
Merger reserve	24	927	4,984
Profit and loss account	24	108	280
Shareholders' funds – equity		2,008	6,237

These accounts were approved by the directors on 28 May 2003 and are signed on their behalf by:

Lord Marshall of Knightsbridge
Chairman

R N Haythornthwaite
Chief Executive

A N Hennah
Chief Financial Officer

Accounting policies

Basis of accounting

These accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Basis of consolidation

The consolidated profit and loss account and balance sheet incorporate the accounts of Invensys plc and its subsidiary undertakings together with the Group's share of the results of associated undertakings for the financial year to 31 March 2003. The results of subsidiary undertakings sold or acquired during the year are included in the profit and loss account up to, or from, the date control passes.

New financial reporting standards

In November 2000 the Accounting Standards Board (ASB) issued Financial Reporting Standard No 17: Retirement Benefits. The full implementation of the requirements of FRS 17 has been deferred by the ASB.

In accordance with the transitional provisions of FRS 17, Invensys has disclosed in note 6 the impact that FRS 17 would have on the closing balance sheet of the Group as at 31 March 2003 and also discloses the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses under FRS 17 for the year ended 31 March 2003.

The Group intends to fully adopt FRS 17 effective from 1 April 2003.

Foreign currencies

The trading results of overseas subsidiaries and associated undertakings are translated into sterling at average rates of exchange ruling during the year. The retranslation of the retained earnings of overseas operations to closing rates is dealt with as a movement in reserves.

Assets and liabilities of overseas subsidiaries, including goodwill, are translated into sterling at closing rates of exchange ruling at the balance sheet date and any exchange differences are taken to reserves.

Currency differences arising from the translation at closing rate of the investment in subsidiaries and associated undertakings are taken to reserves, together with exchange gains and losses arising on foreign currency borrowings which finance a proportion of foreign currency investments.

All other exchange differences are included in the profit and loss account for the year.

Turnover

Turnover represents the invoiced value of goods supplied by the Group excluding inter-company transactions, sales by associated undertakings and sales taxes. Turnover relating to long-term contracts represents the value of work performed during the year.

Research and development

Research and development expenditure is expensed as incurred.

Pension costs and other post-retirement benefits

The expected costs of providing pensions and other post-retirement benefits are charged to the profit and loss account so as to spread the costs over the service lives of the participating employees. The costs are assessed in accordance with the advice of actuaries, and provision is made in the accounts along with the associated deferred taxation effect.

Goodwill

On acquisition, the fair value of net assets is assessed and adjustments are made to bring the accounting policies of businesses acquired into alignment with those of the Group. The difference between the price paid for new interests and the fair value of identifiable net assets acquired is capitalised and amortised over its economic life, depending on the nature of the acquisition for a period not exceeding 20 years. Any costs of integrating the acquired business are taken to the profit and loss account. Goodwill is currently amortised over a period of 12 to 20 years.

Goodwill relating to acquisitions prior to 5 April 1998, the date that Financial Reporting Standard No 10: Goodwill and Intangible Assets (FRS 10) became applicable to the Group, has been written off to reserves. Goodwill previously eliminated against reserves is charged to the profit and loss account in so far as it relates to disposals in the year.

Depreciation of tangible fixed assets

Tangible fixed assets are depreciated to their residual values on a straight-line basis over their estimated useful lives at the following rates applied to original cost.

Freehold land	Nil
Freehold buildings	2 to 2.5%
Leasehold properties	Over the period of the lease
Plant and machinery	7 to 35%
Computer software systems	10 to 25%

Impairment of tangible fixed assets and goodwill

Impairment reviews are undertaken if there are indications that fixed asset carrying values may not be recoverable. The discount rate used is the Group's pre-tax weighted average cost of capital, as adjusted for the particular risks associated with the income-generating unit concerned.

Leased assets

Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate within creditors. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are held at cost less provisions for impairment.

Stocks

Stocks and work in progress are valued at the lower of cost and estimated net realisable value. Cost comprises the cost of raw materials and an appropriate proportion of labour and overheads. Provision is made for obsolete and slow moving items and for unrealised profits on items of inter-company manufacture.

The net realisable value of long-term contracts has been arrived at having regard to estimated cost to completion. A prudent level of profit attributable to the contract activity is taken up if the final outcome of such contracts can be reliably assessed. On all contracts, full provision is made for any losses in the year in which they are first foreseen.

Accounting policies continued

Cash and borrowings

Cash and short-term deposits at the balance sheet date are deducted from bank loans and overdrafts where formal rights of set-off exist.

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:

- (i) Provision is made for tax on gains arising from fair value adjustments of fixed assets or 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.
- (ii) Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- (iii) Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which 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.

Derivative instruments

The Group primarily uses forward foreign currency contracts and interest rate swaps to manage its exposures to fluctuations in interest and foreign exchange rates. These instruments are accounted for as hedges when designated as hedges at the inception of the contract. As a result, gains and losses on foreign exchange contracts are offset against the foreign exchange gains and losses on the related financial assets and liabilities. Where the instrument is used to hedge against future transactions, gains and losses are not recognised until the transaction occurs. Where the instrument is used to adjust the currency profile of net borrowings which are matched to net assets of subsidiaries, any gains and losses are recorded in reserves. Interest rate swaps are disclosed in the fair value table in note 29, and are not revalued or otherwise required to be shown in the Group balance sheet at the year end. Interest differentials are recognised by accruing the net interest payable. Gains or losses arising on hedging instruments which are cancelled due to the termination of underlying exposure are taken to the profit and loss account immediately.

Notes to the accounts

1 Segmental analysis

	Turnover 2003 £m	Turnover 2002 £m	Operating profit* 2003 £m	Operating profit* 2002 £m	Net operating assets 2003 £m	Net operating assets 2002 £m
Business division						
Production Management	1,449	1,584	28	33	267	323
Energy Management	2,054	2,341	170	237	729	956
Development	755	698	52	42	297	299
Continuing operations	4,258	4,623	250	312	1,293	1,578
Discontinued operations	760	2,349	80	237	–	772
	5,018	6,972	330	549	1,293	2,350
Operating exceptional items			(119)	(299)		
Goodwill amortisation			(122)	(124)		
Goodwill impairment			(585)	–		
Share of operating profits of associated undertakings			–	2		
Corporate exceptional items			(782)	(816)		
Loss on ordinary activities before interest and taxation			(1,278)	(688)		
Geographical analysis by origin						
United Kingdom	450	443	27	39	62	102
Rest of Europe	992	1,000	29	84	203	175
North America	2,069	2,340	184	152	638	843
South America	100	158	(2)	8	46	83
Asia Pacific	588	630	9	28	327	365
Africa and Middle East	59	52	3	1	17	10
Continuing operations	4,258	4,623	250	312	1,293	1,578
Discontinued operations	760	2,349	80	237	–	772
	5,018	6,972	330	549	1,293	2,350
Operating exceptional items			(119)	(299)		
Goodwill amortisation			(122)	(124)		
Goodwill impairment			(585)	–		
Share of operating profits of associated undertakings			–	2		
Corporate exceptional items			(782)	(816)		
Loss on ordinary activities before interest and taxation			(1,278)	(688)		
Borrowings					(1,921)	(3,522)
Cash and short-term deposits					365	506
Deferred tax					(109)	(177)
Taxation					(291)	(244)
Dividends					–	(35)
Goodwill					746	1,512
Net assets per consolidated balance sheet					83	390
Geographical analysis of turnover by destination						
United Kingdom	406	422				
Rest of Europe	1,020	1,022				
North America	1,943	2,203				
South America	124	174				
Asia Pacific	643	680				
Africa and Middle East	122	122				
Continuing operations	4,258	4,623				
Discontinued operations	760	2,349				
	5,018	6,972				

*Before exceptional items, goodwill amortisation and goodwill impairment.

Notes to the accounts *continued*

1 Segmental analysis *continued*

	Turnover 2003 £m	Turnover 2002 £m	Operating profit* 2003 £m	Operating profit* 2002 £m	Net operating assets 2003 £m	Net operating assets 2002 £m
Geographical analysis by origin for discontinued operations						
United Kingdom	34	227	7	2	–	33
Rest of Europe	128	624	4	39	–	72
North America	562	1,276	70	176	–	577
South America	4	12	–	1	–	8
Asia Pacific	30	201	(1)	19	–	81
Africa and Middle East	2	9	–	–	–	1
	760	2,349	80	237	–	772

The analysis of turnover by destination for discontinued operations is not materially different from the analysis of turnover by origin shown above.

Analysis of operating exceptional items, goodwill amortisation and net book value of goodwill

	Operating exceptional items 2003 £m	Operating exceptional items 2002 £m	Goodwill amortisation 2003 £m	Goodwill amortisation 2002 £m	Net book value of goodwill 2003 £m	Net book value of goodwill 2002 £m
Business division						
Production Management	68	120	92	90	386	974
Energy Management	42	99	18	18	255	289
Development	9	40	8	8	105	135
Continuing operations	119	259	118	116	746	1,398
Discontinued operations	–	40	4	8	–	114
	119	299	122	124	746	1,512

Geographical analysis

United Kingdom	9	17	18	18	198	248
Rest of Europe	44	58	26	25	67	271
North America	58	141	57	57	353	657
South America	2	2	3	2	11	29
Asia Pacific	6	41	14	14	117	193
Africa and Middle East	–	–	–	–	–	–
Continuing operations	119	259	118	116	746	1,398
Discontinued operations	–	40	4	8	–	114
	119	299	122	124	746	1,512

*Before exceptional items, goodwill amortisation and goodwill impairment.

2 Exceptional items and goodwill impairment

	2003 £m	2002 £m
Operating exceptional items		
Restructuring costs	(119)	(223)
Market related write downs	–	(76)
Total operating exceptional items	(119)	(299)
Goodwill impairment	(585)	–
Corporate exceptional items		
Fundamental reorganisation costs within continuing operations	–	(172)
Costs of closure		
Within continuing operations	(4)	–
Within discontinued operations	(25)	(45)
	(29)	(45)
(Loss)/profit on sale of fixed assets		
Within continuing operations	(13)	(25)
Within discontinued operations	1	(9)
	(12)	(34)
Profit/(loss) on disposal of discontinued operations		
Rexnord	259	–
Flow Control	125	–
Sensor Systems	155	–
Fasco Motors	111	–
Drive Systems	62	–
Other	(132)	(86)
	580	(86)
Goodwill charged on sale of discontinued operations	(1,321)	(479)
Loss on disposal of operations	(741)	(565)
Total corporate exceptional items	(782)	(816)
Total exceptional items and goodwill impairment	(1,486)	(1,115)

Restructuring costs of £119 million (2002 £223 million) include £nil in respect of asset write-downs (2002 £37 million) associated with the strategic review in the prior year, and £64 million (2002 £73 million) of redundancy and severance costs.

The Group has undertaken a review of the carrying value of goodwill capitalised on the balance sheet. This review has led to a £585 million impairment charge, principally related to Baan, being recorded in the accounts. A discount rate of 9.0% has been applied.

Goodwill charged on the disposal of discontinued operations comprises Rexnord £554 million, Flow Control £98 million, Sensor Systems £136 million, Fasco Motors £354 million, Drive Systems £101 million and Other £78 million.

Notes to the accounts continued

2 Exceptional items continued

The disposals are further analysed as follows:

	2003 £m
Fixed assets	472
Cash	19
Working capital	429
Finance leases	(1)
Provisions	(115)
Minority interests	(3)
Net assets divested	801
Advisor and professional fees	52
Other directly related costs	176
Goodwill on disposals	1,321
Loss on disposal	(741)
Sale consideration	1,609

The sale consideration was wholly satisfied by cash.

3 Total operating (loss)/profit

	Continuing operations 2003 £m	Discontinued operations 2003 £m	Total 2003 £m	Continuing operations 2002 £m	Discontinued operations 2002 £m	Total 2002 £m
Turnover	4,258	760	5,018	4,623	2,349	6,972
Cost of sales	(3,138)	(567)	(3,705)	(3,386)	(1,679)	(5,065)
Gross profit	1,120	193	1,313	1,237	670	1,907
Distribution costs	(30)	(20)	(50)	(28)	(67)	(95)
Administrative costs	(840)	(93)	(933)	(897)	(366)	(1,263)
Operating profit*	250	80	330	312	237	549
Operating exceptional items	(119)	–	(119)	(259)	(40)	(299)
Goodwill amortisation	(118)	(4)	(122)	(116)	(8)	(124)
Goodwill impairment	(585)	–	(585)	–	–	–
Share of operating profits of associated undertakings	–	–	–	–	2	2
Total operating (loss)/profit	(572)	76	(496)	(63)	191	128

*Before operating exceptional items, goodwill amortisation and goodwill impairment.

The total restructuring costs of £119 million (2002 £223 million) together with £nil (2002 £27 million) of market related write downs, £585 million (2002 £nil) of goodwill impairment plus £122 million (2002 £124 million) of goodwill amortisation are classified as administrative costs, which therefore total £1,759 million (2002 £1,637 million). Market related write downs of £nil (2002 £49 million) are classified as cost of sales which therefore total £3,705 million (2002 £5,114 million).

4 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging the following:

	2003 £m	2002 £m
Depreciation of tangible fixed assets		
Owned	157	258
Held under finance leases	2	2
Provision for impairment of goodwill and tangible fixed assets	585	95
Amortisation of goodwill	122	124
Operating lease rentals		
Hire of plant and machinery	49	63
Other	62	70
Research and development	222	265

4 Loss on ordinary activities before taxation continued

Auditors' fees

Fees in respect of the audit during the year ended 31 March 2003 were £6 million (2002 £6 million). Fees paid in respect of other services provided by Ernst & Young were: to UK group companies £10 million (2002 £15 million) and non-UK group companies £5 million (2002 £4 million). Fees paid in respect of these other services are analysed as follows:

	2003 £m	2002 £m
Transaction support relating to acquisitions and disposals	5	9
Provision of services relating to Group financing and working capital management	4	3
Taxation advisory services	4	3
Public company reporting on overseas regulated markets	1	2
Other local reporting and statutory audits	1	1
Other risk management and assurance services	–	1
	15	19

5 Staff numbers and costs

The average number of people employed by the Group (including directors) during the year was as follows:

	2003	2002
Marketing and distribution	9,157	11,809
Production	45,501	59,534
Technical	4,552	6,527
Finance and administration	4,173	5,810
	63,383	83,680

The aggregate payroll costs of these people were as follows:

	2003 £m	2002 £m
Wages and salaries	1,330	1,810
Social security costs	144	203
Pension, post-retirement and other payroll costs	93	114
	1,567	2,127

Details of directors' emoluments are included in the remuneration report on pages 22 to 28.

6 Pensions and post-retirement benefits

The Group has continued to account for pensions and post-retirement benefits in accordance with Statement of Standard Accounting Practice No 24: Pension Costs (SSAP 24) and the disclosures given in notes (i) and (ii) below respectively, are those required by this standard. Financial Reporting Standard No 17: Retirement Benefits (FRS 17) was issued in November 2000 and will ultimately replace SSAP 24. The transitional disclosures required by FRS 17 are set out in note (iii) below. The Group intends to adopt FRS 17 effective from 1 April 2003.

(i) Pensions

The Group operates many defined contribution and funded defined benefit pension schemes. Contributions to the defined benefit schemes are made in accordance with the recommendations of the independent actuary of the relevant scheme. Complete disclosure of all pension scheme details is not practicable within this report. The most pertinent factors affecting the Group's pension arrangements are discussed below.

The principal Group scheme covering the majority of UK employees is the Invensys Pension Scheme.

The Invensys Pension Scheme is a funded defined benefit scheme. The last valuation of the Scheme was carried out as at 5 April 2000 by independent actuaries using the projected unit method. The assumptions that have the most effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions in payment. The triennial actuarial review of the main UK pension scheme, with a valuation date of 5 April 2003, has recently commenced and we expect a report to be available by September 2003.

Notes to the accounts *continued*

6 Pensions and post-retirement benefits *continued*

(i) Pensions *continued*

A market related approach was taken to assessing these assumptions. The principal assumption was that the discount rate to measure the Scheme's liabilities would be 5.75% which was 1% over the return available on Government debt; 1.75% per annum higher than the rate of salary inflation; and 2.5% per annum higher than the rate of increase in pensions.

At the date of the last valuation the market value of the assets, excluding members' additional voluntary contributions, was £4,152 million and was sufficient to cover 118% of the benefits that had accrued to members, after allowing for future increases in salaries. The actuarial surplus is being spread over the average remaining service lives of the current employees (twelve years at the valuation date) by the straight-line method.

There are numerous schemes operated by overseas subsidiaries. Of these the largest US scheme is assessed annually, and the other overseas defined benefit schemes are normally assessed triennially by independent actuaries in accordance with local practice. Where the requirements of SSAP 24 should be fulfilled, the appropriate cost has been recognised, otherwise local practice has been adopted.

Pension costs for the Group in the year were £nil (2002 £3 million), based on a normal cost of £42 million (2002 £57 million) and an actuarial variation of £42 million (2002 £54 million).

Debtors falling due within one year, debtors falling due after more than one year, creditors falling due within one year, creditors falling due after more than one year and provisions include £1 million, £400 million, £6 million, £61 million and £84 million respectively for pension prepayments, accruals and provisions (2002 £1 million, £373 million, £5 million, £63 million and £98 million respectively).

(ii) Post-retirement benefits

The Group also operates a number of non-pension post-retirement benefit plans, under which 13,300 employees are eligible to receive benefits after retirement, the majority of which relate to the provision of medical benefits to retired former employees of the Group's subsidiaries in the US. These schemes are generally unfunded. The latest valuations of the principal schemes, covering retiree medical and life insurance plans in certain US subsidiaries, were performed between 1 April 2002 and 31 March 2003. The assessment was carried out by independent actuaries. The method of accounting for these is similar to that used for defined benefit pension schemes. The gross liability of £109 million (2002 £196 million) at 31 March 2003 is included in provisions for liabilities and charges (note 22). The principal assumptions used were: 6.5% discount rate and medical trend rates for beneficiaries of 13.0% per annum falling to an ultimate rate of 5.0% in 2013. The cost of these schemes for the Group in the year was £6 million (2002 £5 million).

In addition, the Group makes payments to various former employees under medical and workers' compensation agreements.

(iii) FRS 17

The Group operates both funded and unfunded pension and post-retirement schemes. There are no separate funds or assets to support the unfunded schemes but provisions are included on the balance sheet in respect of these liabilities. The major assumptions made when valuing the assets and liabilities of funded and unfunded schemes under FRS 17 are as follows:

For March 2003 the major assumptions are:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) %	Invensys Pension Plan (US) %	Other %	US healthcare %	Other %
Major assumptions					
Rates of increase in salaries	3.75	4.00	2.80	–	3.00
Rate of increase to pensions in payment	3.05	–	1.60	–	1.80
Discount rate for scheme liabilities	5.50	6.50	5.40	6.50	5.90
Inflation rate	2.50	2.50	2.10	–	2.10

For March 2002 the major assumptions were:

	Funded schemes			Unfunded schemes	
	Invensys Pension Scheme (UK) %	Invensys Pension Plan (US) %	Other %	US healthcare %	Other %
Major assumptions					
Rates of increase in salaries	4.00	3.95	4.00	–	3.40
Rate of increase to pensions in payment	3.15	–	–	–	–
Discount rate for scheme liabilities	6.00	7.50	6.00	7.50	6.40
Inflation rate	2.50	3.50	2.90	–	2.30

6 Pensions and post-retirement benefits continued

(iii) FRS 17 continued

Funded schemes

There are two main funded defined benefit schemes in the UK and US, together with other smaller schemes in the rest of the world, which have a net deficit of £753 million after deferred taxation of £16 million.

The expected long-term rate of return and market value of funded defined benefit schemes at 31 March 2003 are:

	Invensys Pension Scheme (UK)		Invensys Pension Plan (US)		Other		Total
	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Market value £m
Equities	8.0	1,180	9.6	264	7.6	105	1,549
Bonds	5.0	1,932	4.4	233	3.2	54	2,219
Other	8.0	150	2.6	13	4.9	33	196
Total market value of assets		3,262		510		192	3,964
Present value of scheme liabilities		(3,701)		(801)		(231)	(4,733)
Deficit in the scheme		(439)		(291)		(39)	(769)
Related deferred tax asset		2		7		7	16
Net pension liability		(437)		(284)		(32)	(753)

The expected long-term rate of return and market value of funded defined benefit schemes at 31 March 2002 were:

	Invensys Pension Scheme (UK)		Invensys Pension Plan (US)		Other		Total
	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m	Market value £m
Equities	8.00	1,778	9.4	506	8.3	113	2,397
Bonds	5.65	1,855	6.5	275	6.0	42	2,172
Other	8.00	156	4.0	17	6.5	42	215
Total market value of assets		3,789		798		197	4,784
Present value of scheme liabilities		(3,524)		(948)		(175)	(4,647)
Surplus/(deficit) in the scheme		265		(150)		22	137
Related deferred tax (liability)/asset		(79)		53		–	(26)
Net pension asset/(liability)		186		(97)		22	111

The amounts that would have been charged to the consolidated profit & loss account and consolidated statement of total recognised gains and losses under FRS 17 for the year ended 31 March 2003 are set out below:

	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	Total £m
Analysis of amounts that would be charged to operating profit				
Current service cost	19	21	7	47
Past service cost	2	1	–	3
Total operating charge	21	22	7	50

In addition, cash contributions of £11 million were made to other pension plans, nearly all of which are defined contribution in nature.

Analysis of amounts that would be credited/(charged) to other finance income

	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	Total £m
Expected return on pension scheme assets	253	52	12	317
Interest on pension scheme liabilities	(206)	(57)	(11)	(274)
Net return	47	(5)	1	43

Notes to the accounts *continued*

6 Pensions and post-retirement benefits continued

(iii) FRS 17 continued

Funded schemes continued

	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	Total £m
Analysis of amounts that would be recognised in the statement of total recognised gains and losses				
Actual return less expected return on scheme assets	(592)	(125)	(9)	(726)
Experience gains and losses arising on the scheme liabilities	67	8	(23)	52
Changes in assumptions underlying the present value of the plan liabilities	(221)	(94)	(22)	(337)
Actuarial loss recognised in the statement of total recognised gains and losses	(746)	(211)	(54)	(1,011)

The movement in the surplus/(deficit) in the plans over the year to 31 March 2003 is analysed below:

	Invensys Pension Scheme (UK) £m	Invensys Pension Plan (US) £m	Other £m	Total £m
Surplus/(deficit) in scheme at beginning of year	265	(150)	22	137
Transfers to/(from) other schemes	–	30	(19)	11
Current service cost	(19)	(21)	(7)	(47)
Contributions	8	–	6	14
Past service cost	(2)	(1)	–	(3)
Other finance income/(charges)	47	(5)	1	43
Settlement and curtailments	8	51	–	59
Net liabilities transferred on disposal	–	–	15	15
Actuarial loss	(746)	(211)	(54)	(1,011)
Exchange adjustments	–	16	(3)	13
Deficit in scheme at end of year	(439)	(291)	(39)	(769)

The amounts that would have been charged to the consolidated statement of total recognised gains and losses in relation to the funded schemes under FRS 17 for the year ended 31 March 2003 are set out below:

	Invensys Pension Scheme (UK)	Invensys Pension Plan (US)	Other	Total
Difference between the expected and actual return on scheme assets:				
– Amount (£m)	(592)	(125)	(9)	(726)
– Percentage of scheme assets	(18)%	(25)%	(5)%	(18)%
Experience gains and losses on scheme liabilities:				
– Amount (£m)	67	8	(23)	52
– Percentage of scheme liabilities	2%	1%	(10)%	1%
Total amount recognised in the statement of total recognised gains and losses:				
– Amount (£m)	(746)	(211)	(54)	(1,011)
– Percentage of scheme liabilities	(20)%	(26)%	(23)%	(21)%

Unfunded schemes

The Group's overseas subsidiaries also operate certain unfunded schemes, including a number of non-pension post-retirement healthcare plans in the US. Provisions are currently held in the accounts for these liabilities.

The present value of unfunded scheme liabilities at 31 March 2003 is:

	US healthcare £m	Other £m	Total £m
Present value of liabilities	(74)	(88)	(162)
Related deferred tax asset	26	4	30
Net pension/post-retirement liability (under FRS 17)	(48)	(84)	(132)
Less provisions and accruals net of deferred tax (under SSAP 24)	68	69	137
	20	(15)	5

6 Pensions and post-retirement benefits continued

(iii) FRS 17 continued

The present value of unfunded scheme liabilities at 31 March 2002 was:

	US healthcare £m	Other £m	Total £m
Present value of liabilities	(135)	(112)	(247)
Related deferred tax asset	39	–	39
Net pension/post-retirement liability (under FRS 17)	(96)	(112)	(208)
Less provisions and accruals net of deferred tax (under SSAP 24)	136	140	276
	40	28	68

The amounts that would have been charged to the consolidated profit & loss account and consolidated statement of total recognised gains and losses under FRS 17 for the year ended 31 March 2003 are set out below:

	US healthcare £m	Other £m	Total £m
Analysis of amounts that would be charged/(credited) to operating profit			
Current service cost	1	3	4
Past service cost	(21)	1	(20)
Total operating (credit)/charge	(20)	4	(16)

Analysis of amounts that would be charged to other finance charges

Interest on pension scheme liabilities	(8)	(5)	(13)
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Analysis of amounts that would be recognised in the statement of total recognised gains and losses

Experience gains and losses arising on the scheme liabilities	(5)	(13)	(18)
Changes in assumptions underlying the present value of the plan liabilities	(10)	1	(9)
Actuarial loss recognised in the statement of total recognised gains and losses	(15)	(12)	(27)

The movement in the liabilities in the plans over the year to 31 March 2003 is analysed below:

	US healthcare £m	Other £m	Total £m
Liabilities in scheme at beginning of year	(135)	(112)	(247)
Transfers from funded schemes	–	(11)	(11)
Current service cost	(1)	(3)	(4)
Past service costs	21	(1)	20
Other finance charges	(8)	(5)	(13)
Benefit payments	10	6	16
Liabilities transferred on disposal of businesses	42	56	98
Actuarial loss	(15)	(12)	(27)
Exchange adjustments	12	(6)	6
Liabilities in scheme at end of year	(74)	(88)	(162)

The amounts that would have been charged to the consolidated statement of total recognised gains and losses under FRS 17 for the year ended 31 March 2003 are set out below:

	US Healthcare	Other	Total
Experience gains and losses on scheme liabilities:			
– Amount (£m)	(5)	(13)	(18)
– Percentage of scheme liabilities	(7)%	(15)%	(11)%
Total amount recognised in statement of total recognised gains and losses:			
– Amount (£m)	(15)	(12)	(27)
– Percentage of scheme liabilities	(20)%	(14)%	(17)%

Notes to the accounts *continued*

6 Pensions and post-retirement benefits *continued*

(iii) FRS 17 *continued*

Overall impact of FRS 17

If the above amounts had been recognised in the accounts, the effect on the Group's net assets would have been as follows:

	2003 £m	2002 £m
SSAP 24 pension/post-retirement balances (net of deferred tax)	(77)	22
FRS 17 pension/post-retirement balances (net of deferred tax)		
Funded	(753)	111
Unfunded	(132)	(208)
	(885)	(97)
Displacement of deferred tax assets	(22)	(37)
Impact on net assets	(984)	(112)

With regard to the funding of the UK and US defined benefit pension schemes it is the intention that employer contributions will be resumed.

The rights of third parties to terminate the principal schemes and thereby crystallise termination deficits greater than those calculated under FRS 17 have been considered. On the basis of legal and actuarial advice and a detailed analysis of the alternative options available to the third parties and the Group, the exercise of such powers is considered very unlikely.

There is a consequential impact on the Group's deferred tax position as the net deferred tax assets which would be recognised under FRS 17 would displace £22 million (2002 £37 million) of deferred tax assets currently recognised in respect of tax losses which are not pension related. This is a result of the current tax loss position of the Group in certain territories.

A deferred tax asset has not been recognised on the net liability for schemes, both funded and unfunded, where the extent to which such an asset could be used is currently uncertain as defined by FRS 19.

7 Share of profits of associated undertakings

The share of profits of associated undertakings attributable to the Group's interest is £nil (2002 £2 million), less a tax charge of £nil (2002 £2 million) and less dividends receivable of £nil (2002 £1 million).

8 Net interest payable and similar charges

	2003 £m	2002 £m
Interest payable on bank loans and overdrafts	(65)	(107)
Interest payable on other loans	(43)	(78)
Other	(21)	(13)
	(129)	(198)
Interest receivable	16	28
	(113)	(170)

9 Tax on loss on ordinary activities

(i) Analysis of tax charge

	2003 £m	2002 £m
UK corporation tax		
Current tax on income for the year	7	23
Adjustments in respect of prior years	(8)	(30)
	(1)	(7)
Double taxation relief	(7)	(23)
	(8)	(30)
Foreign tax		
Current tax on income for the year	51	63
Adjustments in respect of prior years	9	(20)
	60	43
Total current tax	52	13

9 Tax on loss on ordinary activities continued

(i) Analysis of tax charge continued

	2003 £m	2002 £m
Deferred tax		
Origination and reversal of timing differences	7	(17)
Adjustments to estimated recoverable deferred tax assets arising in prior years	(2)	11
	5	(6)
Share of associated undertakings' tax	–	2
Tax on loss on ordinary activities	57	9

UK current year corporation tax of £7 million (2002 £23 million) includes tax of £7 million (2002 £23 million) on dividends receivable from overseas subsidiary undertakings.

The tax charge on corporate exceptional items is £9 million (2002 credit of £15 million). The charge represents a £9 million current foreign tax charge on disposal of businesses in the year.

(ii) Factors affecting the tax charge

	2003 £m	2002 £m
Loss on ordinary activities before tax	(1,391)	(858)
Tax credit on ordinary activities at 30%	(417)	(257)
Adjustments in respect of prior years	1	(50)
Exceptional items after the impact of tax losses and exempt capital gains/losses	244	250
Current year tax losses and other timing differences not tax effected	23	44
Utilisation of tax losses brought forward	(9)	(14)
Overseas rate differences	14	10
Deferred tax provided	(5)	6
Impairment of goodwill	176	–
Other including non-deductible goodwill amortisation	25	24
Total current tax	52	13

(iii) Factors that may affect future tax charges

No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets, except where there is a commitment to dispose of these assets. Such gains would only become taxable if the assets were sold without it being possible to claim rollover relief or offset existing capital losses. The Group does not expect any tax to become payable in the foreseeable future.

No deferred tax has been recognised in respect of the earnings of overseas subsidiaries as no dividends have been accrued out of those earnings. Tax losses with a value of £400 million (2002 £200 million) have not been recognised as their use is uncertain or is not currently anticipated.

A deferred tax asset of £21 million (2002 £26 million) has not been recognised on timing differences relating to intangible fixed assets as the reversal of these timing differences is expected to increase tax losses.

10 Loss attributable to the parent company

The loss dealt with in the accounts of the parent company, Invensys plc, is £4,194 million (2002 profit of £241 million). In accordance with the exemption granted under section 230 of the Companies Act 1985, a separate profit and loss account for the Company has not been presented.

11 Dividends

	2003 £m	2002 £m
Interim	35	35
Final	–	35
	35	70

Notes to the accounts continued

12 (Loss)/earnings per share

	2003	2002
(Loss)/earnings per share		
Basic	(41.2)p	(24.8)p
Continuing operations*	2.2p	2.8p
Diluted	(41.2)p	(24.8)p
Average number of shares (millions)		
Basic	3,500	3,500
(Loss)/profit (£ millions)		
Basic	(1,442)	(869)
Continuing operations		
Continuing operations operating profit*	250	312
Net interest payable	(113)	(170)
	137	142
Tax at Group's effective rate of 49.0% (2002 29.0%)	(67)	(41)
Minority interest	6	(2)
	76	99

*Before exceptional items, goodwill amortisation and goodwill impairment.

The basic loss per share has been calculated using 3,500 million shares (2002 3,500 million), being the weighted average number of shares in issue during the year, and the loss after taxation and minority interests of £1,442 million (2002 £869 million).

Earnings per share is also calculated by reference to earnings for continuing operations, before exceptional items, goodwill amortisation and goodwill impairment with an underlying tax charge at the Group's effective rate of 49.0% (2002 29.0%) since the directors consider that this gives a useful additional indication of underlying performance.

The diluted loss per share has been calculated in accordance with Financial Reporting Standard No 14: Earnings per share (FRS 14), using 3,500 million shares (2002 3,500 million), being the total of the weighted average number of shares in issue and relevant options outstanding during the year, and the loss after taxation and minority interests of £1,442 million (2002 £869 million). In accordance with FRS 14 the diluted loss per share calculations are without reference to adjustments in respect of certain share options which are considered to be anti-dilutive.

13 Intangible fixed assets – goodwill

	£m
Group	
Cost	
At beginning of year	1,791
Disposals	(139)
Exchange adjustments	61
At end of year	1,713
Amortisation	
At beginning of year	279
Charge for the year	122
Provision for impairment	585
Disposals	(31)
Exchange adjustments	12
At end of year	967
Net book value	
At end of year	746
At beginning of year	1,512

14 Tangible fixed assets

	Group			Company
	Land and buildings £m	Plant and equipment £m	Total £m	Plant and equipment £m
Cost				
At beginning of year	538	2,373	2,911	4
Additions	31	108	139	–
Disposal of subsidiary undertakings	(140)	(914)	(1,054)	–
Disposals	(24)	(87)	(111)	(2)
Transfer to current asset investments	(19)	–	(19)	–
Exchange adjustments	(26)	(77)	(103)	–
At end of year	360	1,403	1,763	2
Depreciation				
At beginning of year	110	1,286	1,396	2
Charge for the year	16	143	159	–
Disposal of subsidiary undertakings	(39)	(550)	(589)	–
Disposals	–	(48)	(48)	–
Transfer to current asset investments	(9)	–	(9)	–
Exchange adjustments	(7)	(19)	(26)	–
At end of year	71	812	883	2
Net book value				
At end of year	289	591	880	–
At beginning of year	428	1,087	1,515	2

Amounts included in respect of assets held under finance leases are:

	Group		Total £m
	Land and buildings £m	Plant and equipment £m	
Net book value			
At end of year	4	2	6
At beginning of year	6	5	11
Depreciation			
Charge for the year	1	1	2

The net book value of land and buildings comprises:

	Group 2003 £m	Group 2002 £m
Freehold	239	362
Long leasehold	3	21
Short leasehold	39	45
In the course of construction	8	–
	289	428

Notes to the accounts continued

15 Investments

	Group			Company
	Associated undertakings £m	Other fixed asset investments £m	Current asset investments £m	Subsidiary undertakings £m
Cost				
At beginning of year	7	59	33	8,839
Additions	–	–	–	2,107
Transfers from tangible fixed assets	–	–	10	–
Transfers to cash	–	(10)	–	–
Disposal of subsidiary undertakings	–	–	(1)	–
Disposals	(1)	(13)	(10)	(823)
Exchange adjustments	(2)	2	(1)	–
At end of year	4	38	31	10,123
Share of post acquisition reserves				
At beginning of year	7	–	–	–
Disposal of subsidiary undertakings	(7)	–	–	–
At end of year	–	–	–	–
Amounts written off				
At beginning of year	–	–	–	(100)
Increase during year	–	(8)	–	(5,579)
Disposals	–	–	–	61
At end of year	–	(8)	–	(5,618)
Net book value				
At end of year	4	30	31	4,505
At beginning of year	14	59	33	8,739

Group investments at net book value comprise:

	Associates 2003 £m	Associates 2002 £m	Other fixed asset investments 2003 £m	Other fixed asset investments 2002 £m	Current asset investments 2003 £m	Current asset investments 2002 £m
Listed shares						
Overseas	–	–	8	14	–	–
Unlisted shares	4	14	22	45	–	–
Other	–	–	–	–	31	33
	4	14	30	59	31	33

The market value of listed shares was £8 million (2002 £22 million) for other fixed asset investments.

Details of the Group's principal operating subsidiary undertakings have been included on page 64.

16 Stocks

	Group 2003 £m	Group 2002 £m
Raw materials and consumables	198	305
Long-term contract work in progress	37	36
Other work in progress	81	152
Finished goods	182	333
	498	826
Progress payments received: long-term contracts	(9)	(2)
	489	824

The current replacement cost of stocks does not differ materially from the historical cost stated above.

17 Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year				
Trade debtors	583	835	–	–
Amounts recoverable on long-term contracts	170	215	–	–
Amounts owed by subsidiary undertakings	–	–	11,960	12,443
Amounts owed by associated undertakings	1	4	–	–
Corporation tax	20	18	–	–
Other debtors	189	266	6	9
Prepayments and accrued income	91	152	7	7
	1,054	1,490	11,973	12,459
Amounts falling due after more than one year				
Deferred tax asset (note 22)	11	9	–	–
Other debtors	118	128	2	2
Pension prepayments	400	373	–	–
	529	510	2	2
	1,583	2,000	11,975	12,461

Notes to the accounts continued

18 Creditors: amounts falling due within one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank and other loans (note 20)	110	1,002	27	626
Bank overdrafts	24	57	289	226
Finance leases (note 21)	2	7	–	–
Short-term borrowings	136	1,066	316	852
Payments received on account	89	68	–	–
Trade creditors	552	695	–	–
Bills of exchange	10	12	–	–
Amounts owed to subsidiary undertakings	–	–	11,404	11,298
Corporation tax	311	262	–	–
Sales, social security and payroll taxes	36	50	–	–
Other creditors	124	177	31	48
Accruals and deferred income	361	449	1	1
Dividends payable	–	35	–	35
Other creditors	1,483	1,748	11,436	11,382

19 Creditors: amounts falling due after more than one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank and other loans (note 20)	1,783	2,452	1,741	2,353
Finance leases (note 21)	2	4	–	–
Long-term borrowings	1,785	2,456	1,741	2,353
Amounts owed to subsidiary undertakings	–	–	951	465
Other creditors	84	117	44	32
Other creditors	84	117	995	497

20 Bank and other loans

(i) Bank and other loans falling due after more than one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Repayable otherwise than by instalments				
Repayable wholly within five years	1,652	2,305	1,614	2,212
Repayable wholly beyond five years	129	145	127	141
Repayable by instalments				
Repayable within five years	–	–	–	–
Repayable beyond five years	2	2	–	–
	1,783	2,452	1,741	2,353
Repayable over one but not more than two years	312	90	308	27
Repayable over two but not more than five years	1,340	2,215	1,306	2,185
Repayable beyond five years	131	147	127	141
	1,783	2,452	1,741	2,353

Certain loans for the Group and Company totalling £1,111 million (2002 £1,689 million) were drawn from committed revolving credit facilities as at 31 March 2003. These are repayable within twelve months of the balance sheet date but have been classified as due after more than one year as the relevant facilities extend beyond one year.

Loans and overdrafts amounting to £20 million (2002 £54 million) are secured by charges, mortgages or liens on certain fixed assets, debtors or stocks, of which £13 million (2002 £43 million) are classified as amounts falling due within one year.

20 Bank and other loans continued

(ii) Loan repayment dates and interest rates

Repayable	Committed facility £m	Interest basis	Interest rate % (if fixed)	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Loans repayable within one year have the following repayment dates:							
Bank loans							
August 2002	–	Floating		–	976	–	624
	–			–	976	–	624
Other loans							
July 2003 (JP¥ 2 billion) ¹	11	Fixed	1.0	11	–	11	–
July 2003 (JP¥ 3 billion) ¹	16	Floating		16	–	16	–
August 2003 (US\$73 million) ²	46	Fixed	6.25	46	–	–	–
Other	–	Various		37	26	–	2
	73			110	26	27	2
	73			110	1,002	27	626
Loans repayable beyond one year and within five years have the following repayment dates and interest rates:							
Bank loans							
June 2004	949	Floating		307	702	307	702
August 2005	924	Floating		804	987	804	987
	1,873			1,111	1,689	1,111	1,689
Other loans							
July 2003 (JP¥2 billion) ¹	–	Fixed	1.0	–	11	–	11
July 2003 (JP¥3 billion) ¹	–	Floating		–	16	–	16
August 2003 (US\$73 million) ²	–	Fixed	6.25	–	51	–	–
April 2005 (€500 million) ¹	345	Fixed	5.5	345	307	345	307
July 2005 (€20 million) ¹	–	Floating		–	12	–	12
August 2005 (US\$37 million) ²	23	Fixed	6.4	23	26	–	–
January 2007 (US\$250 million) ³	158	Fixed	7.125	158	176	158	176
Other	–	Various		15	17	–	1
	526			541	616	503	523
	2,399			1,652	2,305	1,614	2,212
Other loans repayable beyond five years have the following repayment dates and interest rates:							
January 2010 (US\$200 million) ³	127	Fixed	6.5	127	141	127	141
Other	–	Various		4	6	–	–
	127			131	147	127	141
Total of bank and other loans	2,599			1,893	3,454	1,768	2,979

¹ Issued under the Company's medium-term note programme.

² Privately placed senior notes.

³ Senior notes issued in the United States under Rule 144A of the Securities Act of 1933.

Bank and other loans includes amounts of £56 million drawn from other than committed facilities.

Notes to the accounts *continued*

20 Bank and other loans continued

(iii) Undrawn committed facilities

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Expiring within one year	–	126	–	126
Expiring in more than one year but not more than two years	642	–	642	–
Expiring in more than two years	120	396	120	396
	762	522	762	522

As at 31 March 2003, the committed revolving loan facilities available to the Group include (a) a £949 million (US\$1,500 million) syndicated revolving multi-currency loan facility which ceases to be available in June 2004; and (b) a £924 million (US\$1,460 million) syndicated revolving multi-currency loan facility which ceases to be available in August 2005.

21 Finance lease commitments

At 31 March 2003 future minimum payments under finance leases and similar hire purchase arrangements are as follows:

	Group 2003 £m	Group 2002 £m
Payable within one year	2	7
Payable between one and two years	2	3
Payable between two and five years	–	2
Total gross payments	4	12
Less finance charges included above	–	(1)
	4	11

22 Provisions for liabilities and charges

	Pensions £m	Post- retirement benefits £m	Warranties £m	Restructuring £m	Other £m	Deferred taxation £m	Total £m
Group							
At beginning of year	98	196	16	5	185	186	686
Disposal of subsidiary undertakings	(38)	(64)	(2)	–	–	(11)	(115)
Transferred to corporation tax creditor	–	–	–	–	–	(63)	(63)
Charged in year	24	11	11	11	77	7	141
Released in year	(1)	(2)	–	–	(12)	–	(15)
Utilised in year	(10)	(15)	(11)	(5)	(38)	–	(79)
Exchange adjustments	11	(17)	–	–	7	1	2
At end of year	84	109	14	11	219	120	557

Pensions largely represent unfunded liabilities on pension schemes in Continental Europe. The Group's main pension schemes based in the United Kingdom and the United States are held in separately administered funds and are described in note 6.

Post-retirement benefits are largely US-based retirement medical schemes.

Warranties are provided in the normal course of business based on an assessment of future claims with reference to past claims. Such costs are generally incurred over the product life cycle.

Other provisions principally relate to onerous lease rentals in respect of vacant property, other onerous contracts, legal claims and environmental liabilities. These liabilities are anticipated largely to crystallise within the next five years.

22 Provisions for liabilities and charges continued

Deferred taxation

The movement for the year in the net deferred tax provision is as follows:

	£m
At beginning of year	177
Disposal of subsidiary undertakings	(11)
Transferred to corporation tax creditor	(63)
Charged in year	5
Exchange adjustments	1
At end of year	109

The net deferred tax provision is included within:

	2003 £m	2002 £m
Debtors (note 17)	(11)	(9)
Provisions for liabilities and charges	120	186
	109	177

Deferred tax assets and liabilities are analysed as follows:

	Amount provided 2003 £m	Amount provided 2002 £m
Group		
Accelerated capital allowances	80	108
Tax losses	(11)	(9)
Other timing differences	40	78
	109	177

Company

The Company's deferred tax provision is £nil (2002 £nil).

23 Called up share capital

Authorised and issued share capital

The authorised share capital of the Company at 31 March 2003 was 5,600 million (2002 5,600 million) ordinary shares of 25p each.

The issued, allotted and fully paid share capital was as follows:

	Group and Company 2003		Group and Company 2002	
	Number of shares millions	£m	Number of shares millions	£m
Ordinary shares of 25p each	3,500	875	3,500	875

A reconciliation of the authorised and issued share capital at 31 March 2003 and at 31 March 2002 for the Group and the Company is as follows:

	Authorised	Issued, allotted and fully paid	Authorised	Issued, allotted and fully paid
	Number of shares millions	Number of shares millions	Share capital £m	Share capital £m
At beginning of year	5,600	3,500	1,400	875
At end of year	5,600	3,500	1,400	875

Notes to the accounts *continued*

23 Called up share capital *continued*

Employee share plans

During the year no shares were issued by the Company in consideration for the exercise of options under the various share option schemes operated by the Company.

On 17 June 2002, 1 August 2002, 4 December 2002, 27 January 2003 and 14 March 2003, options over 41,692,200 shares, 676,800 shares, 5,916,050 shares, 1,079,200 shares and 748,000 shares normally exercisable after three years (subject to satisfying performance criteria) at 100.35p, 64.35p, 63.55p, 50.95p and 25.00p respectively were granted under the Invensys 1998 Senior Executive Share Option Scheme. On 21 January 2003, options over 20,773,711 shares normally exercisable after three, five or seven years at 43p were granted under the Invensys Savings Related Share Option Scheme. On 17 February 2003, options over 6,804,850 shares normally exercisable after three or five years at 43p were granted under the Invensys Overseas Savings Related Share Option Scheme.

On 4 December 2002 a conditional award over 428,500 shares was granted under the Invensys 1998 Senior Executive Long Term Incentive Plan. The award is subject to a performance period from 4 December 2002 to 3 December 2005, after which, if the performance requirement is met, the shares will be released and will be subject to a further two year retention period.

Outstanding options under the Company's various executive share option schemes at 31 March 2003, exercisable at various dates between 2003 and 2013 at various prices between 25p and 711.07p per ordinary share, and at an average price of 190.21p per ordinary share, were 157,400,651 (2002 109,023,424).

Outstanding options under the Company's savings related share option schemes at 31 March 2003, exercisable at various dates between 2003 and 2010 and at various prices between 43p and 484.052p per ordinary share, and at an average price of 94.02p per ordinary share, were 61,400,473 (2002 42,615,895).

In addition, as at 31 March 2003 options over 2,685,310 (2002 5,866,333) BTR ordinary shares remained outstanding under the BTR Savings Related Share Option Scheme. Subject to the rules of the scheme, these options remain exercisable during their normal exercise period following maturity. Upon exercise the BTR ordinary shares which are issued are automatically transferred to the Company in consideration of the issue of new Invensys ordinary shares on the basis of 0.533 for every BTR ordinary share.

24 Reserves

	Share premium account £m	Capital redemption reserve £m	Capital reserve £m	Exchange variation reserve £m	Profit and loss account £m
Group					
At beginning of year	15	83	210	(417)	(622)
Loss for the financial year	–	–	–	–	(1,442)
Dividends	–	–	–	–	(35)
Goodwill written back on disposals	–	–	1,213	–	–
Transfer in respect of prior period	–	–	447	–	(447)
Exchange on goodwill	–	–	177	(177)	–
Exchange realised on disposals	–	–	–	76	(76)
Exchange adjustments	–	–	–	17	–
At end of year	15	83	2,047	(501)	(2,622)

Exchange movements include a transfer of £177 million from the exchange variation reserve to the capital reserve due to the re-translation of goodwill denominated in the local currencies of acquisitions made.

The goodwill written back on disposals of £1,213 million is the goodwill attributable to disposals made during the year which has been charged through the profit and loss account.

The cumulative amount of goodwill resulting from acquisitions which has been written off between 1 April 1984 and 4 April 1998, and which remains in reserves, is £2,340 million which has been charged to the capital reserve.

24 Reserves continued

	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m
Company				
At beginning of year	15	83	4,984	280
Loss for the financial year	–	–	–	(4,194)
Dividends	–	–	–	(35)
Transfer on impairment of investments	–	–	(4,057)	4,057
At end of year	15	83	927	108

During the year £4,057 million was transferred from the merger reserve to the profit and loss account as a result of impairment in the carrying value of investments in certain subsidiary undertakings, to the extent that the merger reserve had been created on the acquisition of these investments. The total charge to the profit and loss account in respect of this impairment is £5,579 million.

The directors consider that £1,343 million of the profit and loss account of Invensys plc is non-distributable, as it arises from the profit on transfer of Group companies to other Group companies where there was no qualifying consideration.

25 Minority interests

	2003 £m	2002 £m
Equity interests: minorities' share of net assets of subsidiaries	184	244
Non-equity interests	2	2
	186	246

During the year to 31 March 2003, £49 million of outstanding shares in Baan Company NV (in liquidatie) were acquired, bringing the Group's holding to 91.7%.

26 Commitments

Capital expenditure

Capital expenditure contracted at the balance sheet date but for which no provision has been made in the accounts amounted to £38 million (2002 £9 million).

Operating leases

As at 31 March 2003, the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2003 £m	Other 2003 £m	Total 2003 £m	Land and buildings 2002 £m	Other 2002 £m	Total 2002 £m
Group						
Leases expiring						
Within one year	10	8	18	15	16	31
Between two and five years	24	21	45	25	30	55
More than five years	38	1	39	35	6	41
	72	30	102	75	52	127

The Company has no operating lease obligations.

27 Contingent liabilities

Group

The Group has contingent liabilities arising in the ordinary course of business from which it is anticipated that the likelihood of any material liabilities arising is remote.

Company

The Company has contingent liabilities in respect of guarantees of subsidiary undertakings, bank loans and overdrafts and bank indemnities totalling £242 million (2002 £573 million).

Notes to the accounts *continued*

28 Cash flow statement

	2003 £m	2002 £m
Reconciliation of operating (loss)/profit before interest and tax to net cash inflow from operating activities		
Total operating (loss)/profit	(496)	128
Depreciation charge	159	260
Provision for impairment charged to operating profit	585	5
Amortisation of goodwill	122	124
Profit in associated undertakings	–	(1)
Cash costs of fundamental reorganisation	–	(45)
Cash costs of closures	(14)	(25)
Decrease in stocks	4	216
Decrease in debtors	90	257
Decrease in creditors and provisions	(240)	(383)
Net cash inflow from operating activities	210	536
Analysis of cash flows for headings netted in the cash flow statement		
Returns on investments and servicing of finance		
Interest received	19	32
Interest paid	(131)	(199)
Interest element of finance lease rental payments	(1)	–
Dividends paid to minority interests	(2)	(3)
Net cash outflow for returns on investments and servicing of finance	(115)	(170)
Taxation		
UK corporation tax (paid)/received	(5)	32
Overseas tax paid	(57)	(75)
Net cash outflow for tax paid	(62)	(43)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(139)	(210)
Sale of tangible fixed assets	36	112
Purchase of trade investments	–	(32)
Sale of trade investments	27	1
Net cash outflow for capital expenditure and financial investment	(76)	(129)
Acquisitions and disposals		
Purchase of subsidiary undertakings	–	(40)
Sale of subsidiary undertakings*	1,512	262
Net cash disposed of on sale of subsidiary undertakings	(19)	(7)
Sale of associated undertakings	2	–
Purchase of minority interests	(49)	(6)
Net cash inflow for acquisitions and disposals	1,446	209

*In 2003, the disposal proceeds received comprised cash of £1,626 million less £114 million of other directly related cash costs (including advisor and professional fees). The proceeds included £17 million that was repaid following the year end in respect of a pensions adjustment on disposals.

28 Cash flow statement continued

	2003 £m	2002 £m
Management of liquid resources*		
Short-term deposits withdrawn/(made)	69	(104)
Net cash inflow/(outflow) from management of liquid resources	69	(104)
Financing		
Debt due within one year		
Increase in short-term borrowings	2,208	3,275
Repayment of short-term borrowings	(3,081)	(4,817)
Debt due beyond one year		
Increase in long-term borrowings	41	1,560
Repayment of long-term borrowings	(578)	(14)
Capital element of finance lease rental payments	(7)	(4)
	(1,417)	–
Net cash outflow from financing	(1,417)	–

	At 1 April 2002 £m	Cash flow £m	Acquisitions/ disposals (excluding cash and overdrafts) £m	Other movements £m	Exchange movement £m	At 31 March 2003 £m
Analysis of changes to net debt						
Cash at bank and in hand	304	(50)	–	–	(10)	244
Overdrafts	(57)	34	–	–	(1)	(24)
		(16)				
Debt due within one year	(1,002)	873	11	(73)	81	(110)
Debt due after one year	(2,452)	537	3	73	56	(1,783)
Finance leases	(11)	7	1	–	(1)	(4)
		1,417				
Short-term deposits	202	(69)	–	–	(12)	121
Total	(3,016)	1,332	15	–	113	(1,556)
Cash at bank and in hand	304					244
Short-term deposits	202					121
Cash and short-term deposits	506					365

*Liquid resources are current asset investments which are readily convertible into cash or traded in an active market and may be disposed of without disrupting the running of the business.

Notes to the accounts *continued*

29 Financial risk management

Disclosures on financial risk management, treasury policies and use of derivatives are also included in the financial review within the management discussion and analysis section.

Short-term debtors and creditors that meet the definition under FRS 13 have been excluded from all numerical disclosures in this note except for the analysis of net currency exposure.

(i) Fair values of financial instruments used for risk management

The fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates translated at year end exchange rates, except for unlisted fixed asset investments which are given a fair value as book value. The book value of unlisted fixed asset investments at 31 March 2003 is £22 million (2002 £45 million).

The fair value of financial instruments at 31 March was:

	Book value 2003 £m	Fair value 2003 £m	Book value 2002 £m	Fair value 2002 £m
Primary financial instruments held or issued to finance the Group's operations				
Short-term borrowings and current portion of long-term borrowings	(136)	(136)	(1,066)	(1,066)
Long-term borrowings	(1,785)	(1,667)	(2,456)	(2,477)
Cash and short-term deposits	365	365	506	506
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps and similar instruments	–	(21)	–	(2)
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales				
Forward foreign currency contracts	2	2	1	–
Other financial assets/liabilities				
Fixed asset investments	30	30	59	59
Other assets	65	65	112	112
Other creditors	(3)	(3)	(8)	(8)

The Group has, in the ordinary course of business, provided indemnities to banks in respect of performance guarantees issued to customers. It is not practical to estimate the fair value of such indemnities as the likelihood of any material liability arising from them is considered remote.

29 Financial risk management continued

(ii) Interest rate exposure of financial assets and liabilities

After taking into account the various interest rate and cross currency swaps, forward foreign exchange contracts and other derivative financial instruments entered into by the Group, the currency and interest rate exposure of the financial assets and liabilities of the Group as at 31 March was:

	Financial assets 2003				Financial liabilities 2003				Net financial assets/ (liabilities) 2003 £m
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	
Sterling	–	19	14	33	(1)	(98)	–	(99)	(66)
Euro	–	70	12	82	(348)	(110)	(1)	(459)	(377)
United States dollar	58	207	12	277	(635)	(319)	–	(954)	(677)
Australian dollar	–	21	–	21	–	(42)	–	(42)	(21)
Japanese yen	–	85	10	95	(10)	(414)	(1)	(425)	(330)
Other	5	75	3	83	(3)	(72)	(1)	(76)	7
	63	477	51	591	(997)	(1,055)	(3)	(2,055)	(1,464)

Of which:

Cash and deposits				365				–	365
Gross borrowings				–				(1,921)	(1,921)
Derivative financial instruments				131				(131)	–
Trade investments				30				–	30
Other financial assets				65				–	65
Other financial liabilities				–				(3)	(3)
				591				(2,055)	(1,464)

	Financial assets 2002				Financial liabilities 2002				Net financial assets/ (liabilities) 2002 £m
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	
Sterling	1	156	3	160	–	(227)	(5)	(232)	(72)
Euro	14	68	4	86	(2)	(684)	(3)	(689)	(603)
United States dollar	101	217	4	322	(708)	(1,427)	–	(2,135)	(1,813)
Australian dollar	–	14	–	14	(1)	(74)	–	(75)	(61)
Japanese yen	–	74	41	115	(48)	(409)	–	(457)	(342)
Other	9	118	6	133	(4)	(90)	(1)	(95)	38
	125	647	58	830	(763)	(2,911)	(9)	(3,683)	(2,853)

Of which:

Cash and deposits				506				–	506
Gross borrowings				–				(3,522)	(3,522)
Derivative financial instruments				153				(153)	–
Trade investments				59				–	59
Other financial assets				112				–	112
Other financial liabilities				–				(8)	(8)
				830				(3,683)	(2,853)

Floating rate financial assets attract interest based on relevant national LIBID equivalent. At 31 March 2003 fixed asset trade investments of £30 million (2002 £59 million) were held on a long-term basis. Cash and deposits include deposits on money markets at daily and monthly rates.

Notes to the accounts *continued*

29 Financial risk management *continued*

(ii) Interest rate exposure of financial assets and liabilities *continued*

Included in the above interest rate exposure analysis of financial assets and liabilities are floating rate derivative financial instruments, comprising forward foreign exchange contracts and cross currency swaps, entered into by the Group to adjust the currency profile of borrowings used to hedge underlying net assets of foreign subsidiary undertakings. These contracts have created currency assets and liabilities as follows:

	Assets 2003 £m	Liabilities 2003 £m	Net 2003 £m	Assets 2002 £m	Liabilities 2002 £m	Net 2002 £m
Sterling	–	(70)	(70)	137	–	137
Euro	–	(8)	(8)	–	(14)	(14)
United States dollar	108	–	108	–	(38)	(38)
Australian dollar	17	–	17	–	(15)	(15)
Japanese yen	–	(53)	(53)	–	(86)	(86)
Other	6	–	6	16	–	16
	131	(131)	–	153	(153)	–

The interest rate profile of fixed rate financial assets and liabilities is analysed below:

	Weighted average interest rate (%) of fixed rate assets 2003	Weighted average years to maturity of fixed rate assets 2003	Weighted average interest rate (%) of fixed rate liabilities 2003	Weighted average years to maturity of fixed rate liabilities 2003	Weighted average interest rate (%) of fixed rate assets 2002	Weighted average years to maturity of fixed rate assets 2002	Weighted average interest rate (%) of fixed rate liabilities 2002	Weighted average years to maturity of fixed rate liabilities 2002
Sterling	–	–	–	–	3.6	0.1	–	–
Euro	3.5	–	5.5	2.0	4.5	2.9	5.5	3.0
United States dollar	2.9	6.7	5.9	3.9	5.4	5.1	5.8	4.9
Australian dollar	3.8	0.1	–	–	–	–	–	–
Japanese yen	–	–	1.1	1.4	0.2	0.7	1.1	1.5
Other	2.5	0.2	8.5	0.4	4.3	0.3	8.2	0.8
Weighted average	2.9	6.1	5.7	3.2	4.7	3.4	5.5	4.3

The floating rate borrowings bear interest at relevant national LIBOR equivalents.

(iii) Currency exposure of financial assets and liabilities

The tables below show the net unhedged monetary assets and liabilities of Group companies that are not denominated in their functional currency and therefore give rise to exchange gains and losses in the profit and loss account. At 31 March, these exposures were as follows:

Functional currency of Group operations	Net foreign currency monetary assets/(liabilities)						
	Sterling 2003 £m	Euro 2003 £m	US dollar 2003 £m	Australian dollar 2003 £m	Japanese yen 2003 £m	Other 2003 £m	Total 2003 £m
Sterling	–	(20)	(29)	(1)	2	1	(47)
Euro	(5)	–	32	–	1	(4)	24
United States dollar	(5)	(1)	–	–	–	(22)	(28)
Australian dollar	(10)	(1)	(12)	–	–	1	(22)
Japanese yen	–	–	8	–	–	7	15
Other	(5)	1	(27)	(2)	–	4	(29)
	(25)	(21)	(28)	(3)	3	(13)	(87)

29 Financial risk management continued

(iii) Currency exposure of financial assets and liabilities continued

Functional currency of Group operations	Net foreign currency monetary assets/(liabilities)						Total 2002 £m
	Sterling 2002 £m	Euro 2002 £m	US dollar 2002 £m	Australian dollar 2002 £m	Japanese yen 2002 £m	Other 2002 £m	
Sterling	–	7	(3)	–	–	(7)	(3)
Euro	(8)	–	49	–	(1)	(6)	34
United States dollar	2	12	–	–	–	10	24
Australian dollar	4	(1)	(6)	–	(1)	–	(4)
Japanese yen	–	–	9	–	–	8	17
Other	(4)	(6)	45	(5)	6	(7)	29
	(6)	12	94	(5)	4	(2)	97

(iv) Hedges

Unrecognised gains and losses on hedges:

	Gains 2003 £m	Losses 2003 £m	Total net losses 2003 £m	Gains 2002 £m	Losses 2002 £m	Total net losses 2002 £m
At beginning of year	4	(5)	(1)	2	(4)	(2)
Arising in previous years that were recognised in the year	–	7	7	(2)	3	1
Arising before beginning of year that were not recognised in the year	4	2	6	–	(1)	(1)
Arising in the year that were not recognised in the year	(2)	(23)	(25)	4	(4)	–
At end of year	2	(21)	(19)	4	(5)	(1)
Expected to be recognised:						
In one year or less	–	(6)	(6)	1	(2)	(1)
In later years	2	(15)	(13)	3	(3)	–
	2	(21)	(19)	4	(5)	(1)

The instruments used for hedging Group exposure to movements in interest rates and exchange rates are detailed in the financial review within the management discussion and analysis section. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

The disclosure also includes forward contracts taken out by the Group to hedge expected future foreign currency sales and purchases.

(v) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 March was as follows:

	Gross borrowings		Other liabilities		Financial liabilities	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
In one year or less, or on demand	136	1,066	134	153	270	1,219
In more than one year but not more than two years	314	92	–	8	314	100
In more than two years but not more than five years	1,340	2,217	–	–	1,340	2,217
In more than five years	131	147	–	–	131	147
	1,921	3,522	134	161	2,055	3,683

As at 31 March 2003 the Group has £2,599 million of bank facilities to meet the maturity of these financial liabilities as they fall due (see note 20).

Principal subsidiaries as at 31 March 2003

As permitted by section 231(5) of the Companies Act 1985, only principal undertakings and their country of incorporation are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

Holding companies	
BTR Industries Ltd	UK
Invensys International Holdings Ltd*	UK
Invensys Australia Ltd	Australia
Invensys Holdings Ltd	UK
Invensys Inc	USA
Invensys Luxembourg SARL	Luxembourg
Production Management	
APV North America Inc	USA
Eurotherm Holdings Ltd*	UK
Invensys International BV	Netherlands
Invensys Process Systems AS	Denmark
Invensys Systems Inc	USA
Energy Management	
Invensys Building Systems Inc	USA
Invensys Metering Systems – North America Inc	USA
Powerware Corporation	USA
Ranco Japan Ltd (71% owned)	Japan
Ranco North America LP**	USA
Robertshaw Controls Company	USA
Smith-Blair Inc	USA
Development	
Densei-Lambda KK (58.2% owned)	Japan
Dimetronic SA	Spain
Safetran Systems Corporation	USA
Westinghouse Brake and Signal Holdings Ltd	UK

All subsidiaries are 100% owned unless stated otherwise.

* Directly owned by Invensys plc.

** Limited Partnership: principal place of business 8115 US Rt 42 North, Plain City, Ohio 43064, USA.

The following names mentioned in this report are trademarks and/or service marks of Invensys plc, its subsidiaries or affiliated companies:

Invensys, APV, APV Baker, ArchestrA, Baan, BTR, Burco, Densei-Lambda, Eurotherm, Foxboro, Foxboro A², Hansen Transmissions, IMServ, Powerware, Ranco, Robertshaw, Safetran, Smith-Blair, Teccor and Westinghouse Brake and Signal.

All other brands mentioned in this report may be trademarks of their respective owners.

Financial summary

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Profit and loss account					
Turnover					
Continuing operations	4,258	4,623	5,099	4,438	4,000
Discontinued operations	760	2,349	2,764	4,596	5,414
	5,018	6,972	7,863	9,034	9,414
Operating profit before exceptional items, goodwill amortisation and goodwill impairment					
Continuing operations	250	312	582	669	623
Discontinued operations	80	237	352	479	601
	330	549	934	1,148	1,224
Operating exceptional items	(119)	(299)	(292)	(276)	(221)
Goodwill amortisation	(122)	(124)	(98)	(38)	(20)
Goodwill impairment	(585)	–	–	–	–
Share of operating profits/(losses) of associated undertakings	–	2	(5)	–	6
Total operating (loss)/profit					
Continuing operations	(572)	(63)	247	447	461
Discontinued operations	76	191	292	387	528
Total operating (loss)/profit	(496)	128	539	834	989
Corporate exceptional items	(782)	(816)	(162)	(661)	(530)
(Loss)/profit before interest and taxation	(1,278)	(688)	377	173	459
Net interest payable	(113)	(170)	(227)	(162)	(183)
(Loss)/profit before taxation	(1,391)	(858)	150	11	276
Taxation	(57)	(9)	(74)	(296)	(388)
(Loss)/profit after taxation	(1,448)	(867)	76	(285)	(112)
Minority interests	6	(2)	(6)	(6)	(10)
(Loss)/profit for the financial year	(1,442)	(869)	70	(291)	(122)
Dividends	(35)	(70)	(268)	(275)	(374)
Retained loss for the financial year	(1,477)	(939)	(198)	(566)	(496)
Balance sheet					
Intangible fixed assets – goodwill	746	1,512	1,635	780	461
Tangible fixed assets and investments	914	1,588	2,170	2,242	3,324
Current assets	2,468	3,363	4,238	4,124	4,732
Total assets	4,128	6,463	8,043	7,146	8,517
Long-term borrowings	(1,785)	(2,456)	(1,568)	(716)	(1,019)
Creditors	(1,703)	(2,931)	(4,699)	(4,555)	(4,391)
Provisions	(557)	(686)	(827)	(859)	(924)
Net assets	83	390	949	1,016	2,183
Shareholders' (deficit)/funds	(103)	144	688	784	1,947
Minority interests	186	246	261	232	236
	83	390	949	1,016	2,183

Financial summary continued

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Summary free cash flow					
Operating profit*	330	550	934	1,148	1,227
Depreciation	159	260	265	355	368
Working capital movement	(56)	8	(462)	(141)	(71)
Interest paid	(113)	(167)	(210)	(175)	(210)
Taxation paid	(62)	(43)	(135)	(60)	(292)
Net capital expenditure	(76)	(130)	(243)	(396)	(555)
Free cash flow before restructuring	182	478	149	731	467
Acquisition provision and restructuring cash spend	(95)	(212)	(390)	(305)	(245)
Free cash flow	87	266	(241)	426	222
Dividends paid	(73)	(220)	(276)	(330)	(452)
Net cash inflow/(outflow) from acquisitions, disposals, fundamental reorganisation costs and closure costs	1,333	141	(379)	745	3,045
Merger transaction costs	–	–	–	(17)	(32)
Share issues	–	–	4	10	4
Return of capital	–	–	–	(1,000)	(1,600)
Currency movement	113	15	(194)	10	(45)
Movement in net debt	1,460	202	(1,086)	(156)	1,142
Opening net debt	(3,016)	(3,218)	(2,132)	(1,976)	(3,118)
Closing net debt	(1,556)	(3,016)	(3,218)	(2,132)	(1,976)

*Operating profit includes cash dividends received from associated undertakings of £nil (2002 £1 million, 2001 £nil, 2000 £nil, 1999 £3 million).

The table above summarises the Group's free cash flow and movement in net debt and is based on the consolidated cash flow statement included in the financial statements.

	2003	2002	2001	2000	1999
Other key data					
(Loss)/earnings per share (basic) (pence)	(41.2)	(24.8)	2.0	(7.8)	(3.1)
Earnings per share (continuing operations, before exceptional items, goodwill amortisation and goodwill impairment) (pence)	2.2	2.8	6.9	9.1	7.6
Diluted (loss)/earnings per share (pence)	(41.2)	(24.8)	2.0	(7.8)	(3.1)
Dividends per share (pence)	1.0	2.0	7.7	7.7	7.0**
Interest cover (times)***	4.3	4.8	5.3	9.3	8.7
Gearing (based on net assets with previously written off goodwill, added back) (%)	64	73	63	42	30
Free cash flow/sales (%)	1.7	3.8	(3.1)	4.7	2.4
Gross capital expenditure/sales (continuing operations) (%)	2.8	3.0	3.0	3.5	5.6
Trade working capital/sales (continuing operations) (%)	14	16	22	20	20
Number of employees at year end (number)	48,867	73,005	89,922	96,260	129,504
Share price – high (pence)	122	153	311	356	384
Share price – low (pence)	10	33	116	240	180
Share price – at year end (pence)	11	124	134	279	273
Number of shares in issue at year end (million)	3,500	3,500	3,500	3,498	3,825

**Proforma dividend per share.

***Based on EBITDA (pre-exceptionals), comparatives restated to reflect change in covenants.

The analysis of consolidated turnover and operating profit before exceptional items, goodwill amortisation and goodwill impairment by historic business division in note 1 to the accounts is the most appropriate presentation for the annual accounts of the Group. However, as announced in our recent trading update in April 2003, the Group will be narrowing its focus from two main divisions to one, Production Management. It will also continue to develop its Rail System business. The rest of the businesses will be managed as an expanded Development division.

For information, an analysis of sales and operating profit before exceptional items, goodwill amortisation and goodwill impairment by new business segment for each of the last two financial years is shown below. For the sake of clarity, the Group will present the costs of corporate centres and also pension costs as separate segments within the segmental analysis by business division.

Business division	Turnover 2003 £m	Turnover 2002 £m	Operating profit* 2003 £m	Operating profit* 2002 £m
Production Management	1,276	1,367	87	61
Rail Systems	404	350	60	47
Development	2,578	2,906	200	269
Corporate costs	–	–	(101)	(69)
Pension costs	–	–	4	4
Continuing operations	4,258	4,623	250	312
Discontinued operations	760	2,349	84	244
Pension costs	–	–	(4)	(7)
Total discontinued operations	760	2,349	80	237
	5,018	6,972	330	549
Operating exceptional items			(119)	(299)
Goodwill amortisation			(122)	(124)
Goodwill impairment			(585)	–
Share of operating profits of associated undertakings			–	2
Corporate exceptional items			(782)	(816)
Loss on ordinary activities before interest and taxation			(1,278)	(688)

*Before exceptional items, goodwill amortisation and goodwill impairment.

Shareholder information

Registered office

Invensys plc
Invensys House
Carlisle Place
London SW1P 1BX
Telephone +44 (0)20 7834 3848
Facsimile +44 (0)20 7834 3879

Registered in England and Wales number 166023

Stock Exchange listing

The Company's ordinary shares are listed on the London Stock Exchange.

Internet

If you have access to the internet, you are welcome to visit Invensys' website at: www.invensys.com. The annual report and accounts 2003 can be obtained from the Invensys Investor Relations website on: www.invensys.com/investors/index.html

American Depositary Receipts (ADRs)

The Company has a sponsored Level 1 ADR programme for which the Deutsche Bank Trust Company Americas acts as Depositary. Each ADR represents two (2) ordinary shares of the Company. The ADRs trade on the Over-The-Counter (OTC) market under the ticker symbol IVNSY. For enquiries, beneficial ADR holders may contact the Deutsche Bank Trust Company Americas Broker Service Desk on +44 (0)20 7547 6500 or +1 212 602 3761. Registered ADR holders may contact the dedicated Invensys plc ADR shareholder services line on +1 888 778 1318 (toll free for US residents only). Further information is also available at <http://www.adr.db.com>

Registrars

For all shareholder enquiries and changes of name and address, please contact:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Telephone +44 (0)870 600 3963
Facsimile +44 (0)870 600 3980
<http://www.lloydstsb-registrars.co.uk>

Electronic communications

Shareholders can also view up-to-date information about their shareholding and register to receive future electronic communications from the Company by visiting the shareholders' website at www.shareview.co.uk (shareholder reference number, shown on share certificates and tax vouchers, will be required).

Invensys nominee service

The Company has a nominee service under which shareholders can hold their shares electronically rather than in certificate form. Through the service, shareholders can also take advantage of streamlined dealing arrangements. Details of the service are contained in the Invensys Nominee Service brochure which is available from Lloyds TSB Registrars.

Sharegift

Sales of very small holdings of shares may suffer commission that is disproportionate to the sale price. Some sellers may wish to consider donating them to charity through Sharegift, a registered charity administered by The Orr Mackintosh Foundation. A Sharegift donation form is available from the Company's registrars. Further information about Sharegift is available at www.sharegift.org or from The Orr Mackintosh Foundation, 24 Grosvenor Gardens, London SW1W 0DH (telephone +44 (0)20 7337 0501).

Capital gains tax

For the purpose of capital gains tax, the market value on 31 March 1982 of an Invensys ordinary share, adjusted for capitalisation issues, was 35.15016p. Shareholders who are in any doubt as to their tax position should seek specific advice from their financial advisers. Further information in relation to capitalisation issues and other matters affecting the base cost of Invensys ordinary shares may be obtained from the Company Secretary.

Financial calendar

Financial year end 2002/03	31 March 2003
Results for 2002/03 announced	29 May 2003
Annual general meeting	23 July 2003
Interim results for 2003/04 announced	November 2003

Final dates and any changes will be announced and notified as appropriate.

Forward-looking statements

This report includes forward-looking statements, within the meaning of the US Private Securities Litigation Reform Act 1995, which are based on market projections, forecasts and expectations. Forward-looking statements are by their nature subject to uncertainties and external factors that may affect the actual outcomes compared with those anticipated.

Designed and produced
by Fishburn Hedges
Printed in the UK

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from sustainable forests using an
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