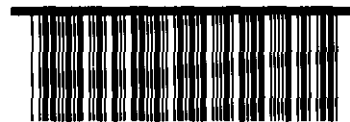


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Eaton Holding Limited

Report and Accounts

31 December 2002



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COMPANIES HOUSE 12/08/03
SCT SIZHKNFC 0046
COMPANIES HOUSE 12/08/03
SCT SIZHKNFC 0046
COMPANIES HOUSE 01/08/03

Eaton Holding Limited

Registered No: 3316660

Directors

N G Dupenois
J D Pryde

Secretary

N G Dupenois

Auditors

Ernst & Young LLP
George House
50 George Square
Glasgow
G2 1RR

Bankers

Barclays Bank PLC
54 Lombard Street
London
EC3V 9EX

Registered Office

PO Box 22
Norfolk Street
Worsley Road North
Worsley
Manchester
M28 3ET

Directors' report

The directors present their report and Group accounts for the year ended 31 December 2002.

Results and dividends

The Group made a profit after tax of £7.9 million. The directors do not recommend the payment of a dividend for the year.

Principal activities

The principal activities of the Group are the manufacture and sale of truck transmissions, electrical switchgear and components, and hydraulic equipment. The Group also sells golf grips and acts as a commission agent, marketing a range of highly engineered products to specialist markets.

Review of business

Turnover for the year ended 31 December 2002 was £231.7 million.

The continued decline in turnover and results is due to the global economic environment adversely impacting sales, coupled with the continuous restructuring of the Company, which has led to an improvement in the overall result.

On 31 January 2002, a £15.0 million loan from Eaton BV was capitalised by subscription of that amount for one £1 share.

Future developments

We see little evidence of a substantial strengthening in the weighted average of our end markets in 2003.

Research and development

The Group has continued its significant programme of research and development to improve a number of its existing products and to develop new products for the future.

Directors and their interests

The directors of the Company during the year ended 31 December 2002 were as follows:

N G Dupenois

E Panfil (resigned 20 June 2002)

J D Pryde

No director has any interest in the shares of the Company.

Employee involvement

The employee involvement programme has been maintained and communications between management and employees remain good. Total quality management teams, briefing groups and joint consultative committees continue to operate in all the main plants.

Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment from disabled persons.

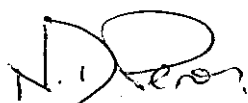
Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be trained for other positions within the Group.

Directors' report

Political and charitable contributions

The Group donated £24,498 for charitable purposes during the year (2001 - £33,095).

On behalf of the board



N G Dupenois
Director and Secretary

26 March 2003

Statement of directors' responsibilities in respect of the accounts

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that the accounts comply with the above requirements.

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

Independent Auditors' Report

to the shareholder of Eaton Holding Limited

We have audited the Group's accounts for the year ended 31 December 2002 which comprise the Group Profit and Loss Account, Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet and the related notes 1 to 29. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's shareholder, 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 shareholder those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are 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 regarding directors' remuneration and transactions with the Group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

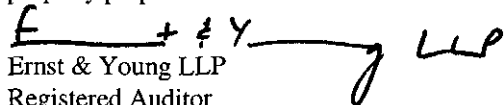
Basis of audit opinion

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 accounts. 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 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.

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 December 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Glasgow

26 March 2003

Group profit and loss account

for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Turnover			
Continuing		228,252	262,141
Discontinued		3,442	19,171
	2	<u>231,694</u>	<u>281,312</u>
Cost of sales	3	(183,767)	(229,950)
Gross profit		<u>47,927</u>	<u>51,362</u>
Distribution costs	3	(11,911)	(12,155)
Administrative expenses	3	(17,845)	(19,535)
Other operating income	3	2,496	9,440
Other operating charges	3	(8,563)	(21,130)
Operating profit			
Continuing		15,681	12,188
Discontinued		(3,577)	(4,206)
	4	<u>12,104</u>	<u>7,982</u>
Interest receivable and similar income	7	2,741	1,698
Interest payable and similar charges	8	(6,012)	(9,220)
Profit on ordinary activities before taxation		<u>8,833</u>	<u>460</u>
Tax (charge)/credit on profit on ordinary activities	9	(906)	965
Profit for the financial year	22	<u><u>7,927</u></u>	<u><u>1,425</u></u>

Statement of total recognised gains and losses

There are no recognised gains or losses other than those included in the profit and loss account above.

Group balance sheet

at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Intangible assets	11	25,017	26,489
Tangible assets	12	59,460	69,184
		<u>84,477</u>	<u>95,673</u>
Current assets			
Stocks	14	23,665	26,362
Debtors	15	103,655	75,118
Investments	16	223	247
Cash at bank and in hand		1,849	1,901
		<u>129,392</u>	<u>103,628</u>
Creditors: amounts falling due within one year	17	(49,186)	(41,415)
Net current assets		<u>80,206</u>	<u>62,213</u>
Total assets less current liabilities		<u>164,683</u>	<u>157,886</u>
Creditors: amounts falling due after more than one year	19	(65,013)	(80,198)
Provision for liabilities and charges	20	(7,368)	(7,795)
Deferred income		(2,649)	(3,167)
		<u>89,653</u>	<u>66,726</u>
Capital and reserves			
Called up share capital	21	2,000	2,000
Share premium account	22	67,560	52,560
Capital contribution reserve	22	12,597	12,597
Profit and loss account	22	7,496	(431)
Equity shareholder's funds		<u>89,653</u>	<u>66,726</u>



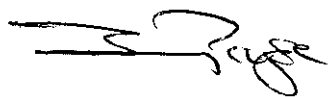
J D Pryde
Director

26 March 2003

Company balance sheet

at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Investments	13	134,560	134,560
Current assets			
Debtors	15	8,627	13,559
Creditors: amounts falling due within one year			
Amounts owed to fellow subsidiary undertakings		(959)	(2,285)
Net current assets		7,668	11,274
Total assets less current liabilities		142,228	145,834
Creditors: amounts falling due after more than one year	19	(65,000)	(80,000)
		77,228	65,834
Capital and reserves			
Called up share capital	21	2,000	2,000
Share premium account	22	67,560	52,560
Capital contribution reserve	22	12,597	12,597
Profit and loss account	22	(4,929)	(1,323)
Equity shareholder's funds		77,228	65,834



J D Pryde
Director

26 March 2003

Notes to the accounts

at 31 December 2002

1. Accounting policies

Basis of preparation

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

Group accounts

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings to the same date. The results of subsidiaries acquired during the year are consolidated from the date of acquisition and the results of subsidiaries disposed of are consolidated up to the date of sale.

Goodwill

Positive purchased goodwill is capitalised and classified as an asset on the balance sheet. Amortisation is calculated to write off the capitalised goodwill in equal instalments over its estimated useful life up to a maximum of 20 years. Goodwill is reviewed for impairment following the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable.

Goodwill purchased prior to the implementation of Financial Reporting Standard No. 10 and not treated as above was and remains eliminated as a matter of accounting policy against the profit and loss reserve and is charged to the profit and loss account on subsequent disposal of the business to which it is related.

Depreciation

Depreciation is provided on tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset evenly, over its expected useful life, as follows:

Freehold buildings	-	over 40 years
Leasehold improvements	-	over the lease term
Plant and machinery	-	over 10 years
Fixtures, fittings, tools and equipment	-	over 3 to 10 years
Computer equipment	-	over 3 to 5 years

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows:

Raw materials	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a first-in, first-out basis.

Deferred tax

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 exception. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Notes to the accounts

at 31 December 2002

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date, except those relating to forward foreign exchange contracts which are translated at the contract rate.

The resulting exchange gains and losses are included, net, in the profit and loss account.

Leasing

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the lease and represent a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Deferred income

Deferred licence fees

Licence fees billed in advance are credited to a deferred income account and released to profit over the licence period.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Pensions and other post retirement health care benefits

The expected cost of providing pensions in respect of defined benefit schemes is charged to the profit and loss account over the average expected service lives of the employees in the schemes. Variations from regular cost are similarly spread over the expected remaining service lives. The excess of contributions paid over accumulated pension costs or vice versa is shown as either a prepayment or a pension provision in the balance sheet respectively.

The cost of post-retirement health care is accrued in the accounts so as to spread the previously unprovided liability forward over the expected service lives of the relevant employees.

Research and development expenditure

Research and development expenditure is written off in the year in which it is incurred.

Notes to the accounts

at 31 December 2002

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and to fellow subsidiary undertakings.

Turnover is attributable to activities in the UK and South Africa.

The directors consider that the disclosure of turnover, net assets and profits by classes of business and by geographical market would be seriously prejudicial to the interests of the Group.

3. Cost of sales, operating costs and income

	2002			2001		
	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost of sales	180,637	3,130	183,767	211,110	18,840	229,950
Distribution costs	11,911	-	11,911	10,871	1,284	12,155
Administrative expenses	14,223	3,622	17,845	17,896	1,639	19,535
Other operating income	(2,439)	(57)	(2,496)	(8,535)	(905)	(9,440)
Other operating charges	8,239	324	8,563	18,611	2,519	21,130
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. Operating profit

This is stated after charging/(crediting):

	2002	2001
	<i>£000</i>	<i>£000</i>
<i>Continuing operations:</i>		
Auditors' remuneration - audit services	248	273
- non-audit services	163	183
Depreciation of owned fixed assets	9,145	10,188
Depreciation of assets held under finance leases	207	156
Research and development	5,212	5,998
Operating lease rentals - land and buildings	496	698
- plant and machinery	991	1,192
Government grants	(195)	(465)
Amortisation of goodwill	1,472	1,471
(Gain)/loss on sale of fixed assets	(604)	968
	<u> </u>	<u> </u>

Notes to the accounts

at 31 December 2002

5. Directors' emoluments

	2002	2001
	£000	£000
Emoluments	222	234

In 2002 the highest paid director received emoluments amounting to £117,000 (2001 - £123,000) and had an accumulated total accrued pension of £72,000 (2001 - £65,000) in respect of a defined benefit scheme at the year end.

Both (2001 - 2) directors are accruing pension benefits under defined benefit schemes.

6. Staff costs

	2002	2001
	£000	£000
Wages and salaries	46,797	52,881
Social security costs	3,764	5,084
Other pension costs	4,827	7,077
	55,388	65,042

The average number of employees during the year was as follows:

	No.	No.
Manufacturing	1,485	1,811
Distribution	219	225
Administration	252	253
	1,956	2,289

7. Interest receivable and similar income

	2002	2001
	£000	£000
Bank interest	41	42
On loans due from fellow subsidiary undertakings	2,700	1,656
	2,741	1,698

8. Interest payable and similar charges

	2002	2001
	£000	£000
On loans due to fellow subsidiary undertakings repayable within five years	5,975	9,193
Finance charges payable under finance leases	37	27
	6,012	9,220

Notes to the accounts

at 31 December 2002

9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2002 £000	2001 £000
<i>Current tax:</i>		
UK corporation tax	1,334	-
Tax underprovided in previous years	39	243
	<u>1,373</u>	<u>243</u>
Advance corporation tax	(889)	-
	<u>484</u>	<u>243</u>
Foreign tax	133	-
	<u>617</u>	<u>243</u>
Total current tax (note 9(b))		
<i>Deferred tax:</i>		
Origination and reversal of timing differences	289	(1,208)
	<u>906</u>	<u>(965)</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2001 – 30%). The differences are reconciled below:

	2002 £000	2001 £000
Profit on ordinary activities before tax	8,833	460
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 – 30%)	<u>2,650</u>	<u>138</u>
Disallowed expenses and non-taxable income	468	250
Depreciation in excess of capital allowances	295	1,187
Other timing differences	(1,225)	(1,379)
Adjustments in respect of previous periods	39	243
ACT written back	(889)	-
Tax losses	(113)	-
Accounting profit on chargeable assets	(573)	(196)
Others	(35)	-
	<u>617</u>	<u>243</u>

Notes to the accounts

at 31 December 2002

9. Tax (continued)

(c) Factors that may affect future tax charges

The Group has capital losses to carry forward at 31 December 2002 of £4,343,000 (2001 - £4,719,000). No provision has been made to recognise any potential deferred tax asset in respect of this amount. These will be offset against capital gains on disposals in the future. The Group also has Surplus ACT of £3,118,00 at 31 December 2002 (2001 - £4,007,000). Of this amount only £1,319,000 (2001 - £715,000) has been recognised as a deferred tax asset in the period. This represents the maximum offset against the deferred tax liability recognised in the period should the deferred tax liability reverse in full. The remaining ACT will be recovered against tax payable on future profits.

(d) Deferred tax

Group

The deferred tax included in the balance sheet is as follows:

	2002 £000	2001 £000
Accelerated capital allowances	4,430	3,556
Other timing differences	(2,452)	(2,471)
Others - ACT	(1,319)	(715)
Provision for deferred tax	<u>659</u>	<u>370</u>
		£000
At 1 January 2002		370
Provided during the year		358
Adjustment in respect of prior years		(69)
At 31 December 2002		<u>659</u>

10. Loss attributable to members of the parent undertaking

The loss dealt with in the accounts of the parent undertaking was £3,606,000 (2001 - loss £7,087,000).

Under Section 230 of the Companies Act 1985, no parent Company profit and loss account is published.

Notes to the accounts

at 31 December 2002

11. Intangible fixed assets

Group

	<i>Goodwill £000</i>
Cost:	
At 1 January 2002 and at 31 December 2002	29,432
Amortisation:	
At 1 January 2002	2,943
Provided during the year	1,472
At 31 December 2002	4,415
Net book value:	
At 31 December 2002	25,017
At 1 January 2002	26,489

12. Tangible fixed assets

Group

	<i>Land and buildings £000</i>	<i>Plant and machinery £000</i>	<i>Fixtures and fittings £000</i>	<i>Total £000</i>
Cost:				
At 1 January 2002	32,066	106,210	4,100	142,376
Additions	278	2,724	387	3,389
Disposals	(2,319)	(12,411)	(1,802)	(16,532)
Exchange	-	27	-	27
At 31 December 2002	30,025	96,550	2,685	129,260
Depreciation:				
At 1 January 2002	7,605	64,315	1,272	73,192
Provided during the year	630	7,475	1,040	9,145
Disposals	(562)	(10,283)	(1,708)	(12,553)
Exchange	-	16	-	16
At 31 December 2002	7,673	61,523	604	69,800
Net book value:				
At 31 December 2002	22,352	35,027	2,081	59,460
At 1 January 2002	24,461	41,895	2,828	69,184

Notes to the accounts

at 31 December 2002

12. Tangible fixed assets (continued)

Group

The net book value of land and buildings comprises:

	2002 £000	2001 £000
Freehold	21,499	23,538
Short leasehold	853	923
	<u>22,352</u>	<u>24,461</u>

The value of freehold land included in land and buildings amounted to £3,453,000 (2001 - £3,879,000).

The net book value of fixed assets above includes an amount of £290,000 (2001 - £466,000) in respect of assets held under finance leases.

13. Investments

Company

	Subsidiary undertakings £000
Cost:	
At 1 January 2002	134,560
At 31 December 2002	<u>134,560</u>

The Company holds directly 100% of the ordinary share capital of Eaton Limited, a manufacturing company, incorporated in England and Wales.

Non-trading subsidiary undertakings are not listed.

14. Stocks

Group

	2002 £000	2001 £000
Raw materials and consumables	13,956	10,841
Work in progress	3,244	7,625
Finished goods and goods for resale	6,465	7,896
	<u>23,665</u>	<u>26,362</u>

Notes to the accounts

at 31 December 2002

15. Debtors

Group

	2002 £000	2001 £000
Trade debtors	30,790	33,988
Amounts owed by ultimate parent undertaking	663	226
Amounts owed by fellow subsidiary undertakings	59,740	30,735
Other debtors	5,951	6,149
Corporation tax recoverable	-	90
Prepayments and accrued income	3,862	3,930
Pension prepayment (note 20)	2,649	-
	<u>103,655</u>	<u>75,118</u>

Company

	2002 £000	2001 £000
Amounts owed by fellow subsidiary undertakings	8,523	13,455
Other debtors	-	-
Corporation tax recoverable	104	104
	<u>8,627</u>	<u>13,559</u>

16. Current asset investment

Group

	2002 £000	2001 £000
Listed	<u>223</u>	<u>247</u>

This investment has a New York Stock Exchange valuation of £245,000 at 31 December 2002 (2001 - £258,550).

17. Creditors: amounts falling due within one year

Group

	2002 £000	2001 £000
Bank overdraft	-	17
Trade creditors	15,788	14,510
Amounts owed to ultimate parent undertaking	445	42
Amounts owed to fellow subsidiary undertakings	17,345	5,555
Other taxes and social security costs	1,771	2,935
Other creditors	13,542	18,149
Obligations under finance leases (note 18)	211	207
Corporation tax creditor	84	-
	<u>49,186</u>	<u>41,415</u>

Notes to the accounts

at 31 December 2002

18. Obligations under finance leases

Group

	2002	2001
	£000	£000
The maturity of these amounts is as follows:		
Amounts payable:		
Within one year	253	244
In two to five years	13	244
	<u>266</u>	<u>488</u>
Less: finance charges allocated to future periods	(42)	(83)
	<u>224</u>	<u>405</u>
Finance leases are analysed as follows:		
Current obligations (note 17)	211	207
Non-current obligations (note 19)	13	198
	<u>224</u>	<u>405</u>

Annual commitments under non-cancellable operating leases are as follows:

Group

	Land and buildings		Other	
	2002	2001	2002	2001
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	44	352	56	164
In two to five years	-	14	666	357
In over five years	276	276	21	5
	<u>320</u>	<u>642</u>	<u>743</u>	<u>526</u>

19. Creditors: amounts falling due after more than one year

Group

	2002	2001
	£000	£000
Loan from fellow subsidiary undertaking	65,000	80,000
Obligations under finance leases (note 18)	13	198
	<u>65,013</u>	<u>80,198</u>

Notes to the accounts

at 31 December 2002

19. Creditors: amounts falling due after more than one year (continued)

Company

	2002 £000	2001 £000
Loan from fellow subsidiary undertaking	65,000	80,000

The loan is repayable no later than 2009 and is repayable earlier at the option of the borrower. It bears interest at a rate of LIBOR plus 2% per annum.

20. Provisions for liabilities and charges

Group

	Deferred tax £000	Warranties £000	Post- retirement healthcare £000	Pension obligations £000	Savings related share option schemes £000	Total £000
At 1 January 2002	370	2,875	3,109	180	1,261	7,795
Movement during the year	289	1,376	309	4,827	300	7,101
Utilised	-	(2,331)	(141)	(7,656)	(49)	(10,177)
Reclassified to debtors (note 15)	-	-	-	2,649	-	2,649
At 31 December 2002	659	1,920	3,277	-	1,512	7,368

Warranty provisions include provisions for expected warranty claims on products sold and services provided. It is expected that all costs related to such claims will be incurred within the next five years.

Note 25 provides further details of pension obligations and the provision for post-retirement health care.

The provision for the Savings Related Share Option Schemes maturing in 2003 covers the 20% discount between the market price at the date of inception of the scheme and the option price at which the employees can purchase Eaton Corporation shares on maturity. The discount is accrued over the five years of the scheme. An additional provision representing the movement in underlying market price of the related shares as at year end 31 December 2002, has been recorded. This reflects the time apportioned element of the liability estimated to arise if the underlying market price of the shares were to remain constant through to the maturity date of the scheme.

Notes to the accounts

at 31 December 2002

21. Share capital

Group and Company

	2002 £000	2001 £000
Authorised:		
Ordinary shares of £1 each	2,000	2,000
Allotted, called up and fully paid:		
Ordinary shares of £1 each	2,000	2,000

On 31 January 2002, a £15.0 million loan from Eaton BV was capitalised by subscription of that amount for one £1 share.

22. Reserves

Group

	Share premium account £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2002	52,560	12,597	(431)	64,726
Arising in the year	15,000	-	-	15,000
Profit for the year	-	-	7,927	7,927
At 31 December 2002	67,560	12,597	7,496	87,653

Company

	Share premium account £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2002	52,560	12,597	(1,323)	63,834
Arising in the year	15,000	-	-	15,000
Loss for the year	-	-	(3,606)	(3,606)
At 31 December 2002	67,560	12,597	(4,929)	75,228

Notes to the accounts

at 31 December 2002

23. Reconciliation of movements in equity shareholder's funds

Group

	2002	2001
	£000	£000
Shareholder's funds at 1 January	66,726	32,704
Profit for the year	7,927	1,425
Share issued in the year	15,000	20,000
Capital contribution	-	12,597
Shareholder's funds at 31 December	89,653	66,726

24. Capital commitments

Group

	2002	2001
	£000	£000
Authorised and contracted but not provided for	740	330

25. Pensions and other post retirement health care benefits

The Group operates defined benefit pension schemes and defined contribution schemes; the Eaton UK Retirement Benefits Plan (Main Scheme); the CHE Pension Scheme (CHE Scheme) and the Aeroquip-Vickers UK Retirement Plan (AV Scheme). On 1 March 2002 the Eaton Pension Plan replaced the CHE Scheme and the AV Scheme whose assets and liabilities were transferred into the new Plan. On 1 April 2002 the assets and liabilities of the Aeroquip-Vickers UK Retirement Plan were transferred into the Eaton Pension Plan. The assets of each scheme are held separately from those of the Company and are administered independently.

SSAP 24 disclosures

At 31 December 1999 valuations of the Eaton UK Retirement Benefit Plan disclosed an aggregate market value of assets of £85,500,000. Overall this represented 90% of the liabilities on the Minimum Funding Requirement basis, and 84% of the liabilities on an ongoing basis.

From 1 January 2001 the rates of the employer's contributions, as estimated by an independent actuary, to the Eaton UK Retirement Benefit Plan were set at a rate projected to meet the Minimum Funding Requirements by 5 April 2005 on the basis of the merged position for the plan. The actuarial valuation assumes stable membership and is based on the assumption that the average yield from investments will be 1% above average earnings growth. No allowance has been made for increases to pensions in payment other than those guaranteed.

The CHE Pension Scheme which was last valued by independent actuaries on 31 December 2000 and disclosed a market value of assets of £45,370,000 representing 109% of the benefits that had accrued to members on an ongoing basis after allowing for future increases in earnings.

The Aeroquip-Vickers UK Retirement Plan which was last valued at 5 April 2001 showed that the market value of the Plan's assets was £56,573,000 of which £32,196,000 related to money purchase benefits. The actuarial value of the defined benefit portion of the fund represented 100% of the liabilities at that date. No allowance has been made for increases to pensions in payment other than those guaranteed.

Notes to the accounts

at 31 December 2002

25. Pensions and other post retirement health care benefits (continued)

The pension expense is charged to the profit and loss account so as to spread the cost of pensions over the average future service period of employees within the Company. Under normal circumstances variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Post-retirement medical benefits are available to eligible employees who joined Eaton Limited prior to 1 January 1991. The number of current employees eligible to receive healthcare benefits on retirement is 43 with an average age of 51 years together with 98 retired employees receiving these benefits.

The ongoing yearly accrual for these benefits is assessed by spreading the future service liability over the remaining expected working life of employees to arrive at a level annual service cost. As of 1 January 2002, there was an Expected Post-retirement Benefits Obligation based on actuarial assumptions of £3,277,000. The amount by which this exceeds the provision in relation to post-retirement medical benefits, of £3,109,000 as at 31 December 2001, has been spread forward over the expected remaining service lives of current employees. The total amount charged to the profit and loss account in 2002 was £309,000 (2001 - £290,000).

The principal actuarial assumptions are that health care costs will increase in real terms by 1.5%, with a net present value discount rate of 6.0%. The provision for pension obligations and post-retirement health care are included at note 20 to the accounts.

26. Related party transactions

As in excess of 90% of the Company's voting rights are controlled by Eaton Corporation, copies of whose accounts are publicly available at the address below, the Company is not required to disclose transactions with other Group subsidiaries or associated undertakings.

The Company has not transacted with any other related parties during the year.

27. Post balance sheet event

On 13 December 2002, Eaton Holding Limited set up a new subsidiary Eaton Electric Limited, (formerly Oxfordbright Limited) which on 3 February 2003 acquired the UK assets of the electrical division of Delta PLC for £41.7 million.

28. Ultimate parent undertaking

The ultimate parent undertaking is Eaton Corporation which is incorporated in the United States of America. Copies of the 2002 Annual Report of Eaton Corporation can be obtained from the following address:

Eaton Corporation
Eaton Centre
Cleveland
Ohio 44114-2584
USA

**Disclosure of pensions and other post retirement health care benefits
required by FRS 17**

Notes to the accounts

at 31 December 2002

29. Disclosure of pensions and other post retirement health care benefits required by FRS 17

The following disclosures do not impact the primary statements in accordance with the transitional arrangements of FRS 17.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation of the Eaton UK Retirement Benefits Plan, the CHE Pension Scheme (CHE Scheme) and the Aeroquip-Vickers UK Retirement Plan at 31 December 1999, 31 December 2000 and 5 April 2001 respectively, and which were updated by an independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2002. Scheme assets are stated at their market value at 31 December 2002.

	2002	2001
	% per annum	% per annum
Main assumptions:		
Rate of salary increases	4.0	4.0
Rate of increase in pensions in payment - Post April 1997 service	2.5	2.5
- Pre April 1997 service	2.25	2.25
Rate of increase in pension in deferment	2.5	2.5
Discount rate	5.75	6.0
Inflation assumption	2.5	2.5

The assets and liabilities of the schemes at 31 December 2002 are:

	Value £000	Value £000
Equities	85,500	102,300
Bonds	36,900	39,200
Total market value of assets	122,400	141,500
Present value of scheme liabilities	(178,300)	(161,700)
Deficit in the schemes	(55,900)	(20,200)
Related deferred tax asset	16,770	6,060
Net pension liability	(39,130)	(14,140)

Post-retirement medical benefits

The provision for unfunded medical benefits is disclosed in note 20 and the main assumptions used for the FRS 17 valuation are as noted in the SSAP 24 disclosure:

The liabilities of the post-retirement medical benefits plan are:

	2002 £000	2001 £000
Present value of plan liabilities	(5,240)	(3,500)
Related deferred tax asset	1,572	1,000
Net defined benefit liability	(3,668)	(2,500)

Notes to the accounts

at 31 December 2002

29. Disclosure of pensions and other post retirement health care benefits required by FRS 17 (continued)

Reconciliation of net assets and reserves under FRS 17

Net assets

	2002 £000	2001 £000
Group net assets as stated in balance sheet	89,653	66,726
Pension (prepayment)/provision - SSAP 24	(2,649)	180
Deferred tax thereon	795	(54)
Post-retirement medical benefit balance	3,277	3,109
Deferred tax thereon	(983)	(933)
Adjusted net assets	90,093	69,028
Retirement benefits liabilities - pension liability	(39,130)	(14,140)
- other post retirement benefits	(3,668)	(2,500)
Net assets as stated in balance sheet less defined benefit liabilities	47,295	52,388

An analysis of the defined benefit cost for the year ended 31 December 2002 is as follows:

	2002 £000
Current service cost	5,426
Past service cost	360
Total operating charge	5,786
Expected return on pension scheme assets	11,801
Interest on pension scheme liability	(9,747)
Total other finance income	2,054
Expected return on pension scheme assets less actual return	28,149
Experience gains arising on scheme liabilities	(2,325)
Loss arising from changes in the assumptions underlying the present value of the scheme liabilities	7,500
Actuarial loss recognised in the statement of total recognised gains and losses	33,324

Analysis of movement in deficit during the year:

	2002 £000
At 1 January 2002	(20,200)
Total operating charge	(5,786)
Total other finance charge	2,054
Actuarial loss	(33,324)
Contributions	7,656
Change in actuarial assumptions	(6,300)
At 31 December 2002	(55,900)

Notes to the accounts

at 31 December 2002

29. Disclosure of pensions and other post retirement health care benefits required by FRS 17 (continued)

History of experience gains and losses:

Difference between expected return and actuarial return on the pension scheme assets:	
- amount (£000)	28,149
- % of scheme assets	23.0
Experience gain arising on scheme liabilities:	
- amount (£000)	2,325
- % of the present value of scheme liabilities	1.3
Total actuarial loss recognised in the statement of total recognised gains and losses:	
- amount (£000)	33,324
- % of the present value of the scheme liabilities	18.7

Reserves

Group

	<i>Share premium Account £000</i>	<i>Capital contribution reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
As stated in balance sheet at 31 December 2001	52,560	12,597	(431)	64,726
Adjusted for:				
SSAP 24 and post-retirement medical benefits net of deferred tax	-	-	2,302	2,302
Retirement benefits reserve (as above)	-	-	(16,640)	(16,640)
Adjusted reserves at 31 December 2001	52,560	12,597	(14,769)	50,388
As stated in balance sheet at 31 December 2002	67,560	12,597	7,496	87,653
Adjusted for:				
SSAP 24 and post-retirement medical benefits net of deferred tax	-	-	440	440
Retirement benefits reserve (as above)	-	-	(42,798)	(42,798)
Adjusted reserves at 31 December 2002	67,560	12,597	(34,862)	45,295