

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2003.

Principal Activities

Alterian plc is the parent Company of a group of companies engaged in the design and development of specialised data manipulation and analysis software tools for sale under licence through third party business partner organisations.

Review of Developments/Future Outlook

Following management action to respond to changing market conditions Alterian has made good progress during the last twelve months.

The number of new end users signed during the fourth quarter demonstrates that the substantial ability of Alterian technology to deliver cost savings for clients is increasingly recognised.

The board is confident that the investment made over the past three years in product, infrastructure and channels to market has placed the company in a strong position to deliver significant value to shareholders. The UK business is becoming well established, and the business in North America is starting to see the fruits of sales and marketing activity over the past year.

The outlook for the achievement of Alterian's targets for the forthcoming year and beyond is positive. The second half in particular will benefit from strong recurring revenue, the maturing partner base and the first significant income from OEM relationships.

Alterian enters the new financial year with a strong recurring revenue base, a significantly enhanced and extended product range, a maturing channel to market and a strong team in both UK and US operations. This all stands Alterian in good stead to deliver against targets of consistently improving annual performance and positive earnings for the year to 31 March 2004.

	31 March 2003	31 March 2002
Signed Business Partners	38	40
<i>Of which have paid royalties for on-sale/usage</i>	26	16
Number of staff	77	108
<i>Of which are sales and marketing</i>	32	40

Dividends

The Company has not paid or accrued any dividends for the year (2002: £nil).

Research and Development Activities

Significant investment in research and development has continued during the year. In addition to building on Alterian's market leading position, enhancements to the core products, together with the launch of new applications to add to the core suite, shorten time to market, provide upsell opportunities into existing clients and increase the average sale price achieved.

During the year the following new applications were released:

- **Alterian Modeling** – which allows end users to apply statistical algorithms to large volumes of data. Alterian Modeling incorporates six statistical components purchased from SPSS Inc last year.
- **Alterian IMS** – a campaign management solution for mid-market companies. The launch of Alterian IMS was accelerated by the purchase of an Alterian based campaign management product from MarkIT Information Services last year.
- **Alterian WebFastcounts** – a browser based analysis application.

Partners have already been successful in selling these applications.

Significant work has also been completed in the area of integration with third party software products. Alterian Siebel Connector, which allows for data to be transferred between Alterian Engine and Siebel, was completed during the year and has already been sold. Further work on open connectivity, links to SPSS and SAS, and integration with third party extract, transform and load products has also been completed.

Several new product releases are planned for the first half of this financial year, including new versions of Alterian Engine incorporating support for Far East character sets, and further applications.

The amount spent on core research and development in the year amounted to £1,957,000 (2002: £1,448,000).

Directors

The names of the present Directors and their biographical details are set out on pages 15 and 16. All Directors served throughout the financial year. Details of interests of the Directors in the Company's shares are set out in the Remuneration Report on pages 26 to 34.

Employees

The Board believes that there is a strong link between the commitment of staff and customer satisfaction. Therefore it is the policy of the Group to develop employee involvement throughout the organisation. The Group is committed to providing equality of opportunity to all existing and prospective employees without unlawful or unfair discrimination. All employees are appraised to ensure that their career development, through training, enables them to be well qualified to deliver the Group's business objectives. In accordance with the Group's equal opportunities policy, disabled people are given the same consideration as others when they apply for jobs. Depending on their skills and abilities, they enjoy the same career prospects and scope for realising their potential as other employees. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

Regular communication meetings are held with all employees to discuss issues and give feedback on the Group's performance and plans. Opportunity is given at these meetings for Senior Management to be questioned about matters concerning employees.

The Company operates a Share Incentive Plan (SIP) that is available to all qualifying UK employees and operates a Non-statutory Stock Option Plan that is available to all qualifying US employees. In addition, the Company operates share option schemes to incentivise and reward employees. The most recent of these to be introduced is the Enterprise Management Incentives Scheme (EMI). Details relating to this plan and the other schemes are shown in the Remuneration Report.

Health and Safety

It is Group policy to ensure that operations are at all times executed in a manner that, as far as reasonably practicable, protects the health, safety and welfare of its employees and all other persons who may be affected by its activities. The Chief Executive is the Director with overall responsibility for safety. Full details of the Group's policy have been disseminated to employees. An ongoing training programme is in place to ensure that the necessary training in health and safety is provided to employees and kept up to date.

Environmental responsibility

Alterian plc recognises its responsibilities to the environment and believes that environmental issues are integral and important components of best practice in business management.

Corporate responsibility

The Group conducts its business with appropriate regard to the rights and interests of shareholders, employees and other stakeholders.

Substantial Interests

At 31 May 2003, the following shareholders other than Directors had notified the Company that they hold more than 3% of the company's shares:

Name	Number of shares	%
Herald Investment Management Limited	3,450,000	8.80
R Davies	2,526,000	6.44
Victory Capital LP Limited	2,500,000	6.38
Edinburgh Fund Managers Group plc	2,307,000	5.88
Legg Mason	2,050,000	5.23
Morley Fund Management	2,000,000	5.10
R Carter	1,282,000	3.27

Charitable and Political Donations

Donations of £942 (2002: £2,298) were made during the year, principally to local charities serving the communities in which the Group operates. There were no political contributions (2002: £nil).

Policy on Payment to Suppliers

It is the Group's policy to agree terms and conditions for its business transactions with suppliers. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The trade creditors of the Group at 31 March 2003 represent 31 days (2002: 41 days) as a proportion of the total amount invoiced by suppliers during the year.

Annual General Meeting

The Company's AGM will be held at Century Place, Newfoundland Street, Bristol, BS2 9AG on Monday 21 July 2003 at 9.30 am. The Notice convening the AGM, and an explanation of the business to be put to the meeting is set out on pages 55 to 57.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming AGM.

Approved by the Board of Directors and signed on behalf of the Board

David Cutler
18 June 2003

Statement of Directors' Responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Application of the Combined Code

The Combined Code, as appended to the Listing Rules sets out principles of good corporate governance and code provisions which are applicable to listed companies incorporated in the UK.

Alterian is committed to high standards of corporate governance. The Group complied throughout the year with the combined code. This is in accordance with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority.

The code establishes 14 principles of good governance which are covered under the areas described below:

Board of Directors

The Company is controlled through the Board of Directors which comprises four executive Directors, including the Chief Executive David Eldridge and an experienced Group Finance Director to ensure compliance and control. There are four non-executive Directors namely Keith Hamill (Chairman), Hugh McCartney (senior independent non-executive), Paul Chapman and Iain Johnston. All non-executive Directors are considered independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The Board has been constituted to optimise the balance of skills, knowledge and experience required to address the key issues facing the Group. The independent non-executive Directors also contribute objectivity and strong independent judgement in addition to their own knowledge and experience. The balance of four executive and four non-executive Directors and the separation of the roles of Chairman and Chief Executive provide a desirable balance countering any tendency to dominate the decision making by an individual or small group. All Directors have access to the advice of the Company Secretary and, where required in furtherance of duties, may take independent professional advice at the Company's expense. The Board recognises the need for Directors to receive appropriate training to fulfil their role on the Board. All Directors will submit themselves for re-election at least once every three years. Directors will be subject to re-election by the shareholders by rotation in accordance with the Articles.

The duties of the Board and its Committees are set out clearly in formal terms of reference which includes a schedule of matters specifically reserved for decision by the Board. It meets regularly to exercise full and effective control over the Group. Its main responsibilities are to agree the overall strategy, to review significant risks, to approve major capital expenditure, development plans, acquisitions and divestments, to monitor performance and ensure that proper internal controls are in place. The Board also considers environmental and employee issues and key appointments.

Board Committees

The Board has established a number of committees and these operate within defined terms of reference. The principal committees are:

Global Executive Board

The Global Executive Board comprises the executive Directors and the Product Development Director. It is chaired by the Chief Executive and meets monthly. It is responsible for implementing strategy and for the management of the business including product development strategy and projects.

Audit Committee

The Audit Committee comprises Keith Hamill, Hugh McCartney, Paul Chapman and Iain Johnston. It is chaired by Keith Hamill and meets with the auditors twice a year to review matters pertaining to accounting and financial reporting as well as internal control and the scope and effectiveness of the audit. Its terms of reference include providing an independent review of the Group's internal controls and accounting policies to ensure that all published financial statements represent a true and fair view of the Group's financial position.

The audit fee is negotiated by the Group Finance Director, subject to approval of the Committee.

Remuneration Committee

The Remuneration Committee comprises of the non-executive Directors, Keith Hamill, Hugh McCartney, Paul Chapman and Iain Johnston. It is chaired by Iain Johnston and meets as necessary to recommend to the Board the level of remuneration, in all its forms, payable to the executive Directors.

Nomination Committee

No separate Nomination Committee existed throughout the year. The Board believes it is a 'small' Board in the context of the Code, and therefore does not need to establish a Nomination Committee. This will continue to be reviewed annually.

Shareholder relations

The Company holds briefing meetings with analysts and institutional shareholders, usually following the interim and final results announcements, to ensure that the investing community receives a balanced and complete view of the Group's performance and the issues faced by the business. The principal communication with private investors is through the provision of the Annual Report and Financial Statements, the Quarterly Reports and the Annual General Meeting, an occasion which generally is attended by all the Company Directors and which all shareholders are given the opportunity to question the Chairman and the Board.

Financial and other information is made available on the Company's internet website which is updated when required. As recommended by the Combined Code, the Notice of the Annual General Meeting is being issued 21 working days before the meeting on 21 July 2003. Hugh McCartney and Keith Hamill will retire by rotation and being eligible will offer themselves for re-election at this meeting.

Maintenance of a sound system of internal control

The Combined Code requires that the effectiveness of the system of internal control including financial, operational, compliance and risk management is reviewed by the Board at least annually. Turnbull also provided guidance to Directors on the Combined Code. The Board fully support these requirements.

Appropriate action plans are established for each area of the business which embed the control culture of the Group throughout its operations. The Group Chief Executive and the executive Directors review these action plans on a regular basis to ensure that the plans are being implemented and that the outputs of the strategic risk assessments remain relevant to the Group. The action plans and their ongoing review form a process for identifying, evaluating and managing risks faced by the Group. The process is ongoing, is regularly reviewed by the Board, has been in place throughout the period from the start of the year to the date of approval of the annual report and is in accordance with Turnbull guidance.

In addition to the above, the process used by the Board to review the effectiveness of the system of internal controls includes the following:

Control environment

The executive Directors have established an organisation structure with clear operating procedures, lines of responsibility and delegated authority. The executive Directors have delegated to the Senior Management Teams the establishment and implementation of control systems appropriate to the various areas of the business.

Risk Control

A review of the significant risks and their potential is made and is regularly updated together with control strategies for mitigating the damage to the Company. This includes a review of controls and procedures to be put in place in respect of a disaster recovery programme including the security of data held on IT systems.

Financial Reporting

The Group has established a system for reporting financial information to the Directors.

The principal elements of this include a formal review by the Directors of:

- Detailed budgets prepared by operations and reviewed by the executive Directors before formal adoption by the Board;
- Monthly management accounts with a comparison against budget; and
- Financial forecasts which are reviewed on a quarterly basis compared against budget.

Monitoring

The Board, as assisted by the Audit Committee, continues to review regularly the effectiveness of internal controls across the Group. The Audit Committee receives reports from the external auditors identifying any material issues and concerns and monitors the progress of action plans.

Review of effectiveness of internal control

The Directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with applicable laws and regulations. However, there are inherent limitations in any system of internal control. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance, against material misstatement or loss. Steps are continually being taken to embed internal controls and risk management further into the operations of the business and to deal with areas of improvement which come to the attention of management or the Board.

Internal Audit

The Board believes that a separate Internal Audit function is inappropriate at this stage in the Group's development.

Going concern

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which has introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

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

UNAUDITED INFORMATION

Remuneration Committee ("the Committee")

The Board of Directors has delegated responsibility for remuneration policy to the Remuneration Committee.

The role of the Committee is to establish and review the remuneration and terms of employment of the executive Directors including the approval of grants of Executive Share Options. The Committee is comprised of the non-executive Directors; Iain Johnston (Chairman of the Committee), Keith Hamill, Hugh McCartney and Paul Chapman. The Committee is authorised by the Board to investigate any matters within its terms of reference. None of the Committee has conflicts of interest arising from cross-Directorships or day-to-day involvement in the running of the business. The Group Chief Executive attends meetings of the Committee by invitation and is consulted by it on proposals to the remuneration of the other executive Directors. The Committee has access to professional advice from inside and outside the Company and makes recommendations to the Board. During the year there have been no external consultancies that have materially assisted the committee. No director plays any part in any discussions about their own remuneration. There have been no changes made to the composition of the Committee since 31 March 2002.

Remuneration Policy

The Committee and the Board believe that in order to attract and maintain a senior management team of the right calibre who will make a significant contribution to maximising shareholder value, it is necessary to provide a competitive remuneration structure. The Board's policy for executive remuneration is designed to:

- ensure that Directors' rewards are competitive when compared to similar companies;
- recognise the growth plans for the Group and align the interests of Directors and shareholders;
- give executive Directors the opportunity to increase their earnings by achieving and exceeding key performance objectives;
- ensure that the executive Directors are fairly rewarded for their individual contribution to the overall performance of the Group.

REMUNERATION REPORT CONTINUED

There are four main elements of the remuneration package for executive Directors:

- Basic annual salary and benefits;
- Annual performance bonuses;
- Pension arrangements; and
- Share Option Incentives.

Basic Salary

An executive Director's basic salary is reviewed by the Committee to take effect from 1 April of each year and on any change of responsibility. In deciding levels of salary the Committee considers the Group as a whole and relies on objective research from third party surveys. It then considers a salary that will reward, motivate and retain the individual as is appropriate for their experience and level of responsibility.

Other Benefits

Benefits for executives principally comprise a car (or car allowance), fuel, permanent health cover, private medical insurance and a death in service benefit of four times salary.

Annual Performance Bonuses

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate parameters the Committee refers to the objective research on a comparator group of companies. The Committee believes that any incentive compensation awarded should be tied into the interests of the company's shareholders and that the principal measure of those interests is profitability. The bonuses for 2002/2003 were capped at 75% of basic salary. This cap remains the same for 2003/2004.

Directors' Pension arrangements/Long term incentives

None of the Directors are members of a defined benefit or money purchase pension scheme or long term incentive plan. Each of the executive Directors are entitled to receive a pension contribution equal to 10% of basic salary in lieu of company contributions.

Employee Share Schemes

The Company operates two employee share option plans and two employee share purchase plans. These schemes are an important part of the performance related remuneration of executive Directors and employees, encouraging them to continue to contribute towards the continuing growth in performance of the Company by participating in the Company's success.

Share Option Plans

The Alterian Share Option plan is divided into two parts. Part A of the plan has been approved by the Inland Revenue as an employee share scheme under the Income and Taxes Act 1988. As at 31 May 2003 354,302 options are under grant under Part A. Part B of the plan constitutes an unapproved share option scheme. As at 31 May 2003 2,079,438 options are under grant to UK employees under part B of the scheme.

The options already granted under this plan are subject to the following performance condition:

- No option can be exercised until positive cumulative undiluted earnings per share for the four quarters immediately preceding exercise has been attained.

For grants made during 2003/2004 the performance condition will be increased so that the cumulative undiluted earnings per share for the four quarters immediately preceding exercise should be not less than 2.5p per ordinary share.

These options are exercisable at any time between the third and tenth anniversaries of the date of grant subject to the performance measure above, provided that the employees remain employed by the Group.

Part B of the plan extends to the directors and employees of Alterian Inc. As such the plan incorporates a Non-statutory Stock Option Plan ("US NSO Schedule") and a second schedule which is an Incentive Stock Option Plan ("US ISO Schedule") which will normally confer tax relief on US participating employees. As at 31 May 2003 343,991 options are under grant under the US NSO Schedule and 558,359 under grant under the US ISO Schedule.

In accordance with local market practice in the US, performance conditions will not be applied to the exercise of options under either of the US NSO or the US ISO. The Board will determine at its discretion the individual limits to be applied to individuals who are granted options under the US plans. In any event, the aggregate market value of the shares for which one or more options granted to any Participant under the US ISO, for the first time become exercisable during any one calendar year, shall not exceed \$100,000. Options will vest at a rate of one-third per annum, commencing on the first anniversary of the date of grant. Options may only be exercised by staff within ten years of the date of grant, provided they remain employed by the Group, otherwise they will lapse.

REMUNERATION REPORT CONTINUED

Enterprise Management Incentives Scheme (EMI Scheme)

This scheme was approved by shareholders on 18 December 2002. Its purpose is to ensure the continuing success of the Company by aligning the interests of key employees and shareholders and allowing employees to share in the value they create through the grant of share options. There is currently an overriding limit that each Option Holder cannot receive more than £100,000 of any approved options in a three year period from the date of grant of the options that took the Option Holder to the limit. As at 31 May 2003 1,478,500 options are under grant under the Scheme.

The options granted during 2002/2003 under this scheme are subject to the same performance criteria as described above for Part A of the Alterian Share Option Plan.

These options are exercisable at any time between the second and tenth anniversaries of the date of grant of that option, subject to the performance criteria above.

Under Schedule 14 of the Finance Act 2000 there is currently an overriding limit to the value of unexercised options of £3 million.

Share Incentive Plan

The Board believes that extending employee share ownership throughout the Group will encourage all employees to identify more closely with the interests of shareholders and will also give them the opportunity to share in the shareholder value they create in a tax-efficient manner. The company Share Incentive Plan (SIP) was set up in August 2001 for all UK employees. As at 31 May 2003 the SIP had 48 members holding 376,858 shares through the Trust.

Employee Benefit Trust

The Company has established an off-shore employee benefit trust (EBT). The Company has the ability to use the EBT to acquire shares in the Company for the satisfaction of share rights granted to its beneficiaries.

US Restricted Share Plan

This plan will enable the Company to increase its capacity to reward and retain employees of Alterian Inc. Under this plan US employees will be awarded restricted shares. Awards are subject to continued employment with certain forfeiture provisions. The Board determines at its discretion the level of award to be made to an individual under this plan. In any event, the aggregate market value of the shares awarded will not exceed the Participant's annual salary at the date of award. As at 31 May 2003 87,150 shares are held under this plan.

Scheme limits

The number of shares which have been issued or may become issuable pursuant to either options granted, shares allocated or shares awarded on any date when added to the number of shares issued and remaining issuable in respect of rights conferred in the previous 10 years in any of the share schemes for the Company's employees may not exceed 15% of the numbers of shares in issue immediately before that date.

Rights of shares and listing

All shares that the Company issues or allots through the plans will rank pari passu with the shares then in issue, except that they shall not rank for dividend or other rights declared by reference to a record date prior to the exercise or issue date. The Company will apply to the UK Listing Authority for any shares issued pursuant to the plans to be admitted to the Official List of the London Stock Exchange.

Under the Company's Employee Share Option Schemes employees held options at 31 May 2003 as follows:

Date of grant	Total number of options under grant	Scheme under which shares were granted	Exercise price per share	Option period ending
13/06/00	1,200,000	Unapproved	50p	13/06/10
10/07/00	150,000	Unapproved	200p	10/07/10
05/12/00	94,340	Unapproved	212p	05/12/10
18/07/01	517,500	ISO	147p	18/07/11
30/07/01	2,000	ISO	147.5p	30/07/11
06/12/01	48,000	ISO	73.5p	06/12/11
06/12/01	797,400	Approved	73.5p	06/12/11
25/02/02	106,850	ISO/NSO	70.5p	25/02/12
01/04/02	23,000	NSO	36p	01/04/12
05/05/02	42,000	Approved	44p	05/05/12
17/06/02	15,000	ISO	48p	17/06/12
05/08/02	150,000	Approved/Unapproved	37.5p	05/08/12
30/10/02	110,000	ISO/NSO	26p	30/10/12
01/11/02	80,000	ISO	31p	01/11/12
18/12/02	702,500	EMI	36p	18/12/12
20/12/02	776,000	EMI	36p	20/12/12
Total under option	4,814,590			

REMUNERATION REPORT CONTINUED

Service Contracts

The Company has entered into the following service agreements with the executive Directors:

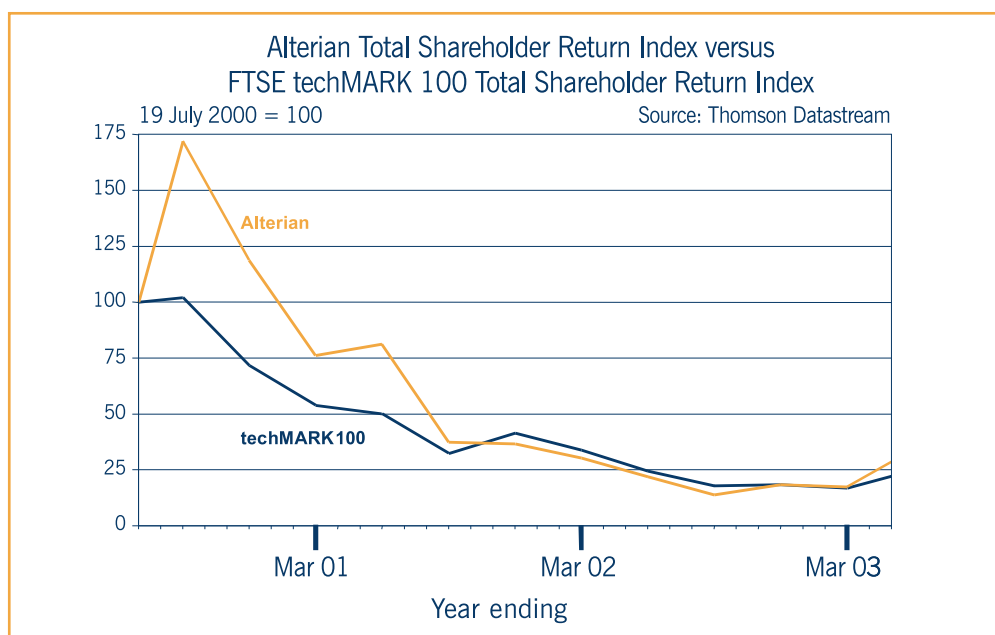
Director	Date of Agreement	Annual Salary (£) 2002/3	Annual Salary (£) 2003/4
David Eldridge	27 June 2000	150,000	160,500
Michael Talbot	27 June 2000	127,500	136,425
Tim McCarthy	27 June 2000	127,500	136,425
David Cutler	1 January 2001	93,000	99,510

Service agreements for the executive Directors are subject to twelve months' written notice from either party. On serving notice to terminate the employment, the Company may elect to pay a sum equivalent to the executive Director's basic salary for the unexpired portion of the contractual notice entitlement.

Under the terms of their service agreements each of the executive Directors are entitled to receive a car allowance equal to 7.5% of basic salary, a pension contribution equal to 10% of basic salary, permanent health cover, private medical insurance and a death in service benefit of four times salary. In addition where it is agreed that any Director is required to spend extended periods abroad an overseas allowance is made available to that Director.

Performance Graph

The following graph shows the company's performance since flotation in July 2000 measured by total shareholder return, compared with the performance of the FTSE techMARK 100 index also measured by total shareholder return. The FTSE techMARK 100 index represents the medium and small technology companies excluding the largest companies and has been selected for this comparison as the directors consider it to be the most suitable comparator.



Non-executive Directors

As non-executive Directors, Iain Johnston, Paul Chapman, and Hugh McCartney each receive a fee of £22,000 per annum. Keith Hamill receives a fee of £36,300. Apart from Keith Hamill, each non-executive's appointment is for a fixed term of 12 months. The appointments are open to renewal by mutual agreement between the non-executives and the Company. Keith Hamill is appointed for a fixed term of three years from 27 June 2000 which can be terminated by either party giving six months' notice.

The Board continues to monitor remuneration issues for non-executive directors in order to ensure continued good corporate governance.

AUDITED INFORMATION

Directors' Emoluments

Emoluments comprise salaries, fees, bonuses and taxable benefits. The Directors' aggregate emoluments in respect of the year ended 31 March 2003 were £821,000 (2002: £968,000).

Individual emoluments for the year were:

	Fees or salary 2003 £000	Bonus 2003 £000	Benefits in kind 2003 £000	Total 2003 £000	Total 2002 £000
Executive Directors:					
D J Eldridge	176	30	1	207	253
M J Talbot	172	25	1	198	260
T E McCarthy	150	25	1	176	217
D R Cutler	104	25	9	138	151
Non-executive Directors:					
K Hamill	36	-	-	36	36
P V Chapman	22	-	-	22	22
I B Johnston	22	-	-	22	25
H D McCartney	22	-	-	22	4
	704	105	12	821	968

Salary includes basic salary, car allowance, pension allowance and overseas allowance.

REMUNERATION REPORT CONTINUED

Directors' Interests in Shares

The Directors' beneficial interests in the shares of the Company at 31 March 2003 and at 1 April 2002 were:

	Ordinary Shares	
	2003	2002
Keith Hamill	95,900	80,000
David J Eldridge	1,738,581	1,691,169
Michael J Talbot	1,732,309	1,694,173
Timothy E McCarthy	1,332,309	1,694,173
David R Cutler	1,248,507	260,667
Iain B Johnston	2,469,000	2,454,000
Paul V Chapman	4,937,000	4,922,000
Hugh D McCartney	100,000	-

The beneficial interests of Paul Chapman include 590,000 Ordinary shares held by The Chapman Family Trust, 3,376,000 Ordinary shares held by the Paul Chapman Discretionary Trust, and 294,000 Ordinary shares held by his wife.

The beneficial interests of Iain Johnston include 116,000 Ordinary shares held by his wife.

The beneficial interests of David Cutler include 375,000 Ordinary shares held by James Hay Pension Nominees, 11,507 Ordinary shares held by Computershare Trustees Limited and 11,000 Ordinary shares held by his wife.

The beneficial interests of David Eldridge include 9,581 Ordinary shares held by Computershare Trustees Limited.

The beneficial interests of Timothy McCarthy include 5,309 Ordinary shares held by Computershare Trustees Limited.

The beneficial interests of Michael Talbot include 5,309 Ordinary shares held by Computershare Trustees Limited.

The Directors had no interests in the shares of the Company's subsidiaries.

At the time of going to press the beneficial interest of David Eldridge had reduced to 1,538,581, the beneficial interest of Michael Talbot had reduced to 1,532,309 and the beneficial interest of Timothy McCarthy had reduced to 1,182,309.

Options

The interests of the Directors in Company share option schemes are as follows:

Directors	Number of options				Exercise price	Date from which exercisable	Expiry date
	1 April 2002	Granted	Exercised	31 March 2003			
D J Eldridge	400,000	-	-	400,000	50p	13/06/2003	13/06/2010
D J Eldridge	163,300	-	-	163,300	73.5p	06/12/2004	06/12/2011
D J Eldridge	-	194,000	-	194,000	36p	20/12/2004	20/12/2012
M J Talbot	400,000	-	-	400,000	50p	13/06/2003	13/06/2010
M J Talbot	163,300	-	-	163,300	73.5p	06/12/2004	06/12/2011
M J Talbot	-	194,000	-	194,000	36p	20/12/2004	20/12/2012
T E McCarthy	400,000	-	-	400,000	50p	13/06/2003	13/06/2010
T E McCarthy	163,300	-	-	163,300	73.5p	06/12/2004	06/12/2011
T E McCarthy	-	194,000	-	194,000	36p	20/12/2004	20/12/2012
D R Cutler	100,000	-	-	100,000	200p	10/07/2003	10/07/2010
D R Cutler	163,300	-	-	163,300	73.5p	06/12/2004	06/12/2011
D R Cutler	-	194,000	-	194,000	36p	20/12/2004	20/12/2012
K Hamill	50,000	-	-	50,000	200p	10/07/2003	10/07/2010
	2,003,200	776,000	-	2,779,200			

The above options are held under both the approved and unapproved Employee Share Option Schemes, and the EMI Scheme. Subject to the conditions noted on pages 28 to 29 the Directors may exercise the options under the approved and unapproved Schemes at any time between the third and tenth anniversaries of the date of grant and the options under the EMI Scheme at any time between the second and tenth anniversaries of the date of grant.

No options lapsed during the year. The market price of the Company's shares at 31 March 2003 was 35p and the range during the year ended 31 March 2003 was 24p to 61p.

There has been no change in the options held since 31 March 2003.

Policy on External Appointments

It is the Company's policy to allow the executive Directors to hold external appointments and to receive payments provided such appointments are agreed by the Board or Committee in advance, that there is no conflict of interests and that the appointment does not lead to a deterioration in the individual's performance.

By order of the Board
David Cutler

18 June 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALTERIAN PLC

We have audited the financial statements of Alterian plc for the year ended 31 March 2003, which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having being audited.

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

Respective responsibilities of directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having being audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

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

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the loss of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors
Bristol

18 June 2003

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 MARCH 2003

	Note	2003 £000	2002 £000
Turnover	2	4,784	4,267
Direct costs		(476)	(521)
Turnover less direct costs		4,308	3,746
Net operating expenses before exceptional costs	3	(9,897)	(14,160)
Operating loss before exceptional costs		(5,589)	(10,414)
Exceptional costs	5	(1,144)	-
Operating loss	4	(6,733)	(10,414)
Investment income	7	767	1,171
Interest payable and similar charges	8	-	(4)
Loss on ordinary activities before taxation		(5,966)	(9,247)
Research and development tax credit	9	300	-
Retained loss for the financial year	21	(5,666)	(9,247)
Basic and diluted loss per ordinary share	11	(14.6) pence	(23.8) pence

There is no difference between the loss on ordinary activities before taxation or the loss for the financial year stated above, and their historical cost equivalents.

The results above all derive from the continuing operations of the Group.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 MARCH 2003

	Note	2003 £000	2002 £000
Loss attributable to shareholders	21	(5,666)	(9,247)
Differences on exchange on retranslation of net assets of overseas subsidiary	21	(70)	7
Total recognised gains and losses		(5,736)	(9,240)

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Fixed assets					
Intangible assets	12	1,141		1,601	
Tangible assets	13	615		984	
Investments	14	113		192	
			1,869		2,777
Current assets					
Debtors	15	2,993		1,983	
Investments	16	14,155		20,149	
Cash at bank and in hand		439		771	
		17,587		22,903	
Creditors: Amounts falling due within one year	17	(2,175)		(2,663)	
Net current assets			15,412		20,240
Total assets less current liabilities			17,281		23,017
Net assets			17,281		23,017
Capital and reserves					
Called up share capital	20		9,803		9,803
Share premium	21		31,054		31,054
Merger reserve	21		(4,756)		(4,756)
Profit and loss account	21		(18,820)		(13,084)
Total equity shareholders' funds	21		17,281		23,017

These financial statements were approved by the Board of Directors on 18 June 2003.

Signed on behalf of the Board of Directors

D J Eldridge
Director

COMPANY BALANCE SHEET

AT 31 MARCH 2003

	Note	2003 £000	2002 £000
Fixed assets			
Investments	14	7,331	7,331
Current assets			
Debtors	15	21,905	15,445
Investments	16	14,155	20,149
		36,060	35,594
Creditors: Amounts falling due within one year	17	(103)	(103)
Net current assets		35,957	35,491
Total assets less current liabilities		43,288	42,822
Net assets		43,288	42,822
Capital and reserves			
Called up share capital	20	9,803	9,803
Share premium	21	31,054	31,054
Profit and loss account	21	2,431	1,965
Total equity shareholders' funds	21	43,288	42,822

These financial statements were approved by the Board of Directors on 18 June 2003.

Signed on behalf of the Board of Directors

D J Eldridge
Director

	Note	2003 £000	2002 £000
Net cash outflow from operating activities	22	(7,230)	(10,498)
Returns on investments and servicing of finance			
Interest received		767	1,171
Interest element of finance lease rental payments		-	(4)
Net cash inflow from investments and servicing of finance		767	1,167
Taxation			
Research and development tax credit		300	-
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(28)	(1,805)
Payments to acquire tangible fixed assets		(60)	(619)
Receipts from sales of tangible fixed assets		11	140
Purchase of fixed asset investments		(58)	(192)
Cash outflow before use of liquid resources and financing		(6,298)	(11,807)
Management of liquid resources			
Net decrease in current asset investments		5,994	12,482
Cash (outflow)/inflow before financing		(304)	675
Financing			
Capital element of finance lease rentals		-	(59)
Net cash outflow from financing		-	(59)
(Decrease)/increase in cash in the year	24	(304)	616

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the Company and its subsidiary undertakings are described below.

ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention.

BASIS OF CONSOLIDATION

The financial statements consolidate the financial statements of Alterian plc and all its subsidiaries.

TURNOVER

Turnover represents amounts invoiced to customers (net of value added tax) for goods and services. Turnover from licence sales is recognised upon delivery to the customer. Maintenance and support contracts are recognised over the period of the contract. Professional services such as training and consultancy are recognised when the services are performed. Royalty income is recognised as it falls due.

OPERATING EXPENSES

The Directors consider that in order to appropriately reflect the operating profile of the business, only the direct costs in making sales such as royalties and commissions should be shown as deducted from turnover and that all other costs of the business are more appropriately classified as operating expenses.

INVESTMENTS

Investments in subsidiary undertakings are shown at cost less provision for any impairment in value.

INVESTMENTS IN OWN SHARES

Investments in the Company's own shares are included in the Group balance sheet at cost less any provision for impairment.

SHARE INCENTIVE PLAN (SIP)

In accordance with UITF Abstract 13, the Group's accounts include the Alterian SIP which is administered by its trustees. The Trust holds shares in the Company for the SIP. The Directors consider that Alterian Technology Limited (one of the Company's subsidiaries) has control of shares held by the Trust and bears their benefits and risks. Where shares in the Company are held by the Trust, they are shown as "Own shares" within fixed asset investments. Finance costs and administrative expenses of the plan are charged to the profit and loss as they accrue.

INTANGIBLE FIXED ASSETS

Software licences and other intellectual property assets acquired are shown at cost and amortised over their estimated useful lives of two to four years.

TANGIBLE FIXED ASSETS

Depreciation is provided on cost less estimated residual value in equal annual installments over the estimated lives of the assets. The rates of depreciation are as follows:

Computer and office equipment	33% - 50% per annum
Fixtures and fittings	15% - 20% per annum

DEFERRED TAXATION

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

CONTINUED

FOREIGN EXCHANGE

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken direct to reserves.

LEASES

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the periods of the leases.

RESEARCH AND DEVELOPMENT

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

PENSION BENEFITS

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. In addition some employees receive an enhancement to salary of between 5% and 10% of gross pay in lieu of company contributions. The costs of both schemes are charged to the profit and loss account as incurred.

FINANCIAL INSTRUMENTS

In relation to the disclosures made in note 19, short-term debtors and creditors are not treated as financial assets or liabilities.

The Group does not trade in financial instruments.

2. TURNOVER AND PROFITS

All turnover and loss before tax is attributable to the principal activity of the Group.

	Turnover		Loss before tax		Net assets	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
Turnover, loss before tax, and net assets by geographical location						
United Kingdom	3,799	3,474	(3,623)	(4,637)	16,890	22,628
United States	985	793	(2,343)	(4,610)	391	389
	4,784	4,267	(5,966)	(9,247)	17,281	23,017

Geographical analysis of turnover by destination

	2003 £000	2002 £000
United Kingdom	3,446	3,113
United States	1,085	871
Rest of the world	253	283
	4,784	4,267

3. OPERATING EXPENSES

Exceptional costs (see note 5)
Other administrative expenses
Administrative expenses
Distribution costs

2003 £000	2002 £000
1,144	-
6,812	8,554
7,956	8,554
3,085	5,606
11,041	14,160

4. OPERATING LOSS

Operating loss is stated after charging:

Rentals under operating leases
– Other
Depreciation and other amounts written off tangible fixed assets:
– own assets
Amortisation of intangible fixed assets
Loss on disposal of fixed assets
Research and development
Auditors' remuneration:
– Group audit fees
– Company audit fees
– Tax advisory services
– Consultancy

2003 £000	2002 £000
486	466
319	309
486	221
56	18
1,957	1,448
43	44
6	6
26	130
-	23

5. EXCEPTIONAL COSTS

Exceptional costs included in administration expenses relate to reorganising the size and structure of the business:

Payroll
Asset write down
Other

2003 £000	2002 £000
528	-
310	-
306	-
1,144	-

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Employee costs (including Directors' emoluments) during the year:

Wages and salaries
Social security costs
Other pension costs

2003 £000	2002 £000
6,171	7,509
529	677
66	60
6,766	8,246

Average number of persons employed by the Group in the year:

Product development and testing
Sales and distribution
Administration

2003 No.	2002 No.
36	44
38	47
19	36
93	127

Directors' emoluments

Details of Directors' emoluments, share options and pension entitlements are given in the audited section of the Remuneration Report which begins on page 32.

7. INVESTMENT INCOME

Interest receivable and similar income

2003 £000	2002 £000
767	1,171

8. INTEREST PAYABLE AND SIMILAR CHARGES

Finance leases and hire purchase contracts

2003 £000	2002 £000
-	4

9. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of credit in year:

Research and development tax credit:

Deferred tax:

Tax credit

2003 £000	2002 £000
(300)	-
-	-
(300)	-

b) Factors affecting tax charge:

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2002: 30%). The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2003 £000	2002 £000
Loss on ordinary activities before tax	(5,966)	(9,247)
Tax on loss on ordinary activities at standard rate	(1,790)	(2,774)
Non deductible expenditure	26	46
Capital allowances in excess of depreciation	114	(112)
Other timing differences	10	-
Research and development credit – current year	423	390
Research and development credit – prior year	(300)	-
No credit for current year losses	1,217	2,450
Current tax credit for the year	(300)	-

c) Factors affecting future tax charges:

The Group does not anticipate taxable profits to arise within the immediate future due to the availability of tax losses of £9.7m (2002: £6.1m) in the UK and £5.9m (2002: £4.9m) in the US as at March 2003.

10. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit for the financial year amounted to £466,000 (2002: £880,000).

11. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders for the year ended 31 March 2003 of £5,666,000 (2002: £9,247,000) by the weighted average number of ordinary shares in issue during the year of 38,900,134 (2002: 38,913,735).

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment is made to diluted EPS for out-of-the-money share options.

	2003 £000	2002 £000
Basic and diluted loss attributable to ordinary shareholders	(5,666)	(9,247)
Weighted average number of ordinary shares ('000)	38,900	38,914
Basic and diluted loss per share	(14.6)p	(23.8)p

12. INTANGIBLE FIXED ASSETS

The Group

Cost:

At 1 April 2002

Exchange movements

Additions

At 31 March 2003

Accumulated amortisation:

At 1 April 2002

Exchange movements

Charge for the year

At 31 March 2003

Net book value:

At 31 March 2003

At 31 March 2002

Total
£000

1,823

(4)

28

1,847

222

(2)

486

706

1,141

1,601

Intangible assets represent intellectual property rights and other software licences. There are no intangible fixed assets in the balance sheet of the Company.

13. TANGIBLE FIXED ASSETS

	Computer and office equipment £000	Fixtures and fittings £000	Total £000
The Group			
Cost:			
At 1 April 2002	834	552	1,386
Exchange movements	(31)	(23)	(54)
Additions	54	6	60
Disposals	(137)	(51)	(188)
At 31 March 2003	720	484	1,204
Accumulated depreciation:			
At 1 April 2002	314	88	402
Exchange movements	(8)	(3)	(11)
Charge for the year	243	76	319
Disposals	(109)	(12)	(121)
At 31 March 2003	440	149	589
Net book value:			
At 31 March 2003	280	335	615
At 31 March 2002	520	464	984

There are no tangible fixed assets in the balance sheet of the Company.

14. INVESTMENTS HELD AS FIXED ASSETS

The Group

Cost and net book value:

At 1 April 2002

Additions in the year

Disposals in the year

Charged to profit and loss account in the year

Market movement in the year

At 31 March 2003

Own Shares
£000

192

61

(19)

(102)

(19)

113

Interests in own shares held represent the cost of shares in the Company held by the trustee of the Employee Benefit Trust ("EBT") and the trustee of the Share Incentive Plan (SIP), and are disclosed as a fixed asset investment in accordance with the Urgent Issues Task Force Abstract No.13 'Accounting for ESOP Trusts'. As at 31 March 2003 the EBT held 98,200 shares with a market value of £34,370, and the trustee of the SIP held 213,916 shares with a market value of £74,870. There was also £4,124 of cash held by the EBT.

The trusts are discretionary trusts for the benefit of employees of the Group. Under the terms of the trusts, the trustees are empowered to purchase shares in the Company with funds contributed by companies within the Group. The trustees will use any shares acquired for the benefit of employees especially in conjunction with employee share schemes operated by the Company.

All costs of the trusts are charged to the Group profit and loss account as they accrue.

The Company

Cost and net book value:

At 1 April 2002 and at

31 March 2003

Shares in
subsidiary
undertakings
£000

7,331

The investments of the Company are unlisted. Full details of these investments are set out in note 28.

15. DEBTORS

	The Group		The Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts falling due within one year:				
Trade debtors	2,654	1,346	-	-
Amounts owed by group companies	-	-	21,878	15,436
Other debtors	36	219	9	7
Prepayments and accrued income	303	418	18	2
	2,993	1,983	21,905	15,445

16. INVESTMENTS HELD AS CURRENT ASSETS

	2003 £000	2002 £000
The Group and the Company		
Fixed interest securities	881	5,021
Certificates of deposit	9,308	8,304
Call deposit account	64	-
Money market fund	3,902	6,824
	14,155	20,149

Unrealised profits on short term Sterling instruments are not recorded in the profit and loss account and total £24,000 as at 31 March 2003 (2002: £nil).

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group		The Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade creditors	270	657	13	21
Taxation and social security	361	193	-	-
Other creditors	132	107	-	-
Accruals and deferred income	1,412	1,706	90	82
	2,175	2,663	103	103

18. DEFERRED TAXATION

The Group

Accelerated capital allowances
Other timing differences
Tax losses carried forward

2003 Provided £000	2002 Provided £000
91	171
(81)	-
(10)	(171)
-	-

Unrecognised deferred tax assets at 31 March 2003 are £5,088,000 (2002: £3,734,000) relating to short term timing differences and tax losses. These will be realised as they reverse against suitable future taxable profits.

19. FINANCIAL INSTRUMENTS

The Group does not trade in financial instruments. Short term debtors and creditors have been omitted from all disclosure other than as appropriate in the currency analysis of net assets in Note 19(a).

19(a). INTEREST RATE AND CURRENCY PROFILE OF FINANCIAL INSTRUMENTS

The following detail the interest rate and currency profiles of the Group's financial assets:

	Sterling 2003 £000	US Dollar 2003 £000	Gross financial assets 2003 £000	Sterling 2002 £000	US Dollar 2002 £000	Gross financial assets 2002 £000
Financial assets						
Floating rate	188	251	439	609	162	771
Fixed rate	14,155	-	14,155	20,149	-	20,149
	14,343	251	14,594	20,758	162	20,920

Financial assets comprise cash in hand and at bank of £439,000 (2002: £771,000) and current asset investments of £14,155,000 (2002: £20,149,000).

Fixed rate financial assets have a weighted average rate of 4.4% (2002: 4.9%); the rates are fixed for a weighted average period of 6.2 months (2002: 11.3 months).

There are no financial liabilities in the Group.

The Group does not undertake any transactions to hedge against foreign currency monetary assets or liabilities.

Interest on floating rate assets is based on the relevant national inter bank rates.

19(a). INTEREST RATE AND CURRENCY PROFILE OF FINANCIAL INSTRUMENTS CONTINUED

The Group has no trading assets and liabilities (or non structural exposures) that give rise to net currency gains and losses recognised in the profit and loss account. The individual operating units only have assets and liabilities denominated in the operating (or functional) currency of the operating unit involved.

19(b). FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

A comparison of current and book values of all the Group's financial instruments as at 31 March 2003 is provided below. Where market prices are not available for a particular instrument, fair values have been calculated by discounting cash flow at prevailing interest rates.

Primary financial instruments held for use in the Group's operations:

	Carrying amount 2003 £000	Estimated fair value 2003 £000	Carrying amount 2002 £000	Estimated fair value 2002 £000
Cash at bank and in hand	439	439	771	771
Current asset investments	14,155	14,155	20,149	20,149
	14,594	14,594	20,920	20,920

Cash awaiting investment in the Group is held in a variety of short dated sterling instruments and deposits actively managed by independent managers to maximise the return consistent with the Group's stringent risk criteria. Regular reports are produced and the returns and investments are compared with both benchmark targets and competitor returns.

20. SHARE CAPITAL

2003 and 2002

Authorised:

Ordinary shares of 25 pence each
15% cumulative preference shares of £1 each

No.	£000
60,000,000	15,000
210,000	210
	15,210
No.	£000
39,212,250	9,803

Allotted, called up and fully paid:

Ordinary shares of 25 pence each

21. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Called up share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	2003 £000	2002 £000
The Group						
At the beginning of the year	9,803	31,054	(4,756)	(13,084)	23,017	32,257
Loss attributable to members of the group	-	-	-	(5,666)	(5,666)	(9,247)
Foreign exchange translation differences	-	-	-	(70)	(70)	7
At the end of the year	9,803	31,054	(4,756)	(18,820)	17,281	23,017
	Called up share capital £000	Share premium account £000	Profit and loss account £000	2003 £000	2002 £000	
The Company						
At the beginning of the year	9,803	31,054	1,965	42,822	41,942	
Profit attributable to members of the company	-	-	466	466	880	
At the end of the year	9,803	31,054	2,431	43,288	42,822	

22. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2003 £000	2002 £000
Operating loss	(6,733)	(10,414)
Depreciation of tangible fixed assets	319	309
Amortisation of intangible fixed assets	486	221
Loss on sale of tangible fixed assets	56	18
Reduction in fixed asset investments	140	-
Increase in debtors	(1,010)	(403)
Decrease in creditors	(488)	(229)
Net cash outflow from operating activities	(7,230)	(10,498)

23. ANALYSIS OF CHANGES IN NET FUNDS

	Cash at bank and in hand £000	Current asset investments £000	Total £000
At 1 April 2002	771	20,149	20,920
Cash flows	(304)	(5,994)	(6,298)
Exchange movement	(28)	-	(28)
At 31 March 2003	439	14,155	14,594

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2003 £000	2002 £000
(Decrease)/increase in cash in the year	(304)	616
Cash outflow from decrease in debt and lease financing	-	59
Cash inflow from decrease in liquid resources	(5,994)	(12,482)
Change in net funds resulting from cash flows	(6,298)	(11,807)
Effect of foreign exchange rate changes	(28)	3
Movement in net funds in the year	(6,326)	(11,804)
Net funds at start of year	20,920	32,724
Net funds at end of year	14,594	20,920

25. OPERATING LEASE COMMITMENTS

At 31 March 2003 the Group and Company was committed to making the following payments during the next year in respect of operating leases:

	2003 £000	2002 £000
Land and buildings		
Expiring in two to five years	335	392
Other assets		
Expiring in two to five years	51	114

The Company has no operating lease commitments.

26. PENSION SCHEME

The Group operates a defined contribution pension scheme covering its permanent UK employees. Scheme funds are administered by trustees and are independent of the Group's finances. The Group has contributed 5.5% of members' gross salaries to the scheme since 1 October 2001. The pension cost charge represents contributions payable by the Group to the fund and amounted to £66,000 (2002: £32,000).

Some UK employees receive an enhancement to salary of between 5% and 10% of gross pay in lieu of company contributions. This amounted to £115,000 (2002: £176,000).

27. RELATED PARTY TRANSACTIONS

There were no material transactions with related parties as defined by FRS8 'Related party transactions'.

28. PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings at 31 March 2003 are shown below. All subsidiary undertakings are wholly owned and prepare accounts to 31 March each year.

Subsidiary	Activity	Country of incorporation, registration and operation	Portion of ordinary shares and voting rights held
Alterian Technology Limited	Database Analysis Software Supplier	England	100%
Alterian Inc	Database Analysis Software Supplier	USA	100%

All subsidiaries are included within the consolidated accounts.

Notice is hereby given that an Annual General Meeting of Alterian plc will be held at Century Place, Newfoundland Street, Bristol, BS2 9AG on 21 July 2003 at 9.30 a.m. for the following purposes:

1. To receive and consider the Financial Statements for the year ended 31 March 2003 and the Reports of the Directors and Auditors thereon.
2. To approve the Directors' Remuneration Report for the year ended 31 March 2003.
3. To re-elect Mr K Hamill as a Director.
4. To re-elect Mr H McCartney as a Director.
5. To re-appoint Deloitte and Touche as Auditors of the Company and resolve that their remuneration be agreed by the Directors.

As **special business**, to consider and, if thought fit, pass the following Resolutions which paragraph 6 will be proposed as an Ordinary Resolution and paragraphs 7 and 8 proposed as Special Resolutions.

6. That the Directors be and are hereby generally and unconditionally authorised for the purposes of Section 80, Companies Act 1985 to allot, or to grant any right to subscribe for or convert any security into, Ordinary Shares in the Company up to a maximum nominal amount of the Company's authorised but unissued share capital in issue immediately following the date of this resolution, at any time or times during the period from the date of the passing of this resolution up to and including the day preceding the next Annual General Meeting of the Company or 15 months whichever comes first, on which date this authority shall expire and this authority shall allow the Company to make an offer or agreement before the expiry of the authority of which would or might require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after the expiry of the authority.
7. That the Directors be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash as if sub-section (1) of Section 89 did not apply to any such allotment, provided that this power shall be limited:
 - (a) to the allotment of equity securities in connection with a rights issue in favour of Shareholders where the equity securities respectively attributable to the interest of all such Shareholders are proportionate (as nearly as may be) to the respective number of Shares held by them; and
 - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities having an aggregate nominal value of up to five per cent of the nominal value of the Ordinary Share Capital of the Company in issue immediately following the date of this resolution;

and shall expire on the day preceding the next Annual General Meeting of the Company or 15 months whichever comes first after the passing of this Resolution, save that the company may, before such expiry, make an offer or agreement which would or might require equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired. Any member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

8. That in accordance with the Articles of Association of the Company and Section 166 of the Companies Act 1985, the Company be and is hereby granted general and unconditional authority to make market purchases (as defined in Section 163 of the Companies Act 1985) of any of its own shares on such terms and in such manner as the Board of Directors of the Company may from time to time determine provided that the authority conferred by this resolution shall:
- (a) be limited to the number of Ordinary Shares having an aggregate nominal value of up to five percent of the nominal value of the Ordinary Share Capital of the Company in issue immediately following the date of this resolution.
 - (b) not permit the payment per share of more than five per cent above the average middle market quotation of an Ordinary Share of the Company on the London Stock Exchange as derived from the Daily Official List on the ten dealing days immediately prior to the date of purchase or less than 25p (in each case exclusive of expenses); and
 - (c) expire on the date falling 15 months after the passing of this resolution or the date of the next Annual General Meeting of the Company, whichever is the earlier, except in relation to purchases of shares the contract for which was concluded before the expiration of the said period and which be executed wholly or partly after such date.

Forms of proxy, to be valid, must be received by the Company's Registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

By Order of the Board
D R Cutler
Company Secretary
18 June 2003

Registered Office
Century Place
Newfoundland Street
Bristol
BS2 9AG

Notes

1. The register of the Directors' interests in the share capital of the Company maintained under Section 325 of the Companies Act 1985 will be available for reference at the place of meeting from 8.30 a.m. until its conclusion.
2. Copies of the Directors' service agreements of more than one year's duration will be available for inspection at the Registered Office of the Company during normal business hours on each business day from the date of this notice until the date of the meeting, and at the place of the meeting from 8.30 a.m. until its conclusion.

NOTICE OF ANNUAL GENERAL MEETING 2003 CONTINUED

EXPLANATORY NOTES

Resolution 1 – Report and Accounts 2003

The directors will present the Directors' Report and the audited financial statements of the company for the year ended 31 March 2003 to shareholders.

Resolution 2 – Approval of Remuneration Report 2003

The directors will seek approval for the Directors' Remuneration Report for the year ended 31 March 2003. Please refer to pages 26 to 34 of the Annual Report for details.

Resolutions 3 and 4 – Re-election of directors retiring by rotation

One-third of the directors must retire each year, though they may offer themselves for re-election. This year Keith Hamill and Hugh McCartney are retiring and seeking re-election. Please refer to pages 15 and 16 of the Annual Report for biographical details. Keith Hamill is the Chairman and Hugh McCartney is the Senior non-executive Director. Both are members of the Remuneration and Audit Committees.

Resolution 5 – Reappointment of the auditors

Deloitte & Touche have informed the directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to use Deloitte & Touche LLP at the appropriate time. All other large accountancy firms are, or are becoming LLPs.

	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Turnover	4,784	4,267	2,078	1,011	426
Operating (loss)/profit	(6,733)	(10,414)	(5,100)	12	(255)
(Loss)/profit on ordinary activities before tax	(5,966)	(9,247)	(3,592)	4	(255)
Dividends	-	-	-	-	-
Retained (loss)/profit for the year	(5,666)	(9,247)	(3,592)	4	(255)
Net assets	17,281	23,017	32,257	170	26

This table summarises the performance and financial position of the Group for the last five financial years.

innovative data analytics solutions

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