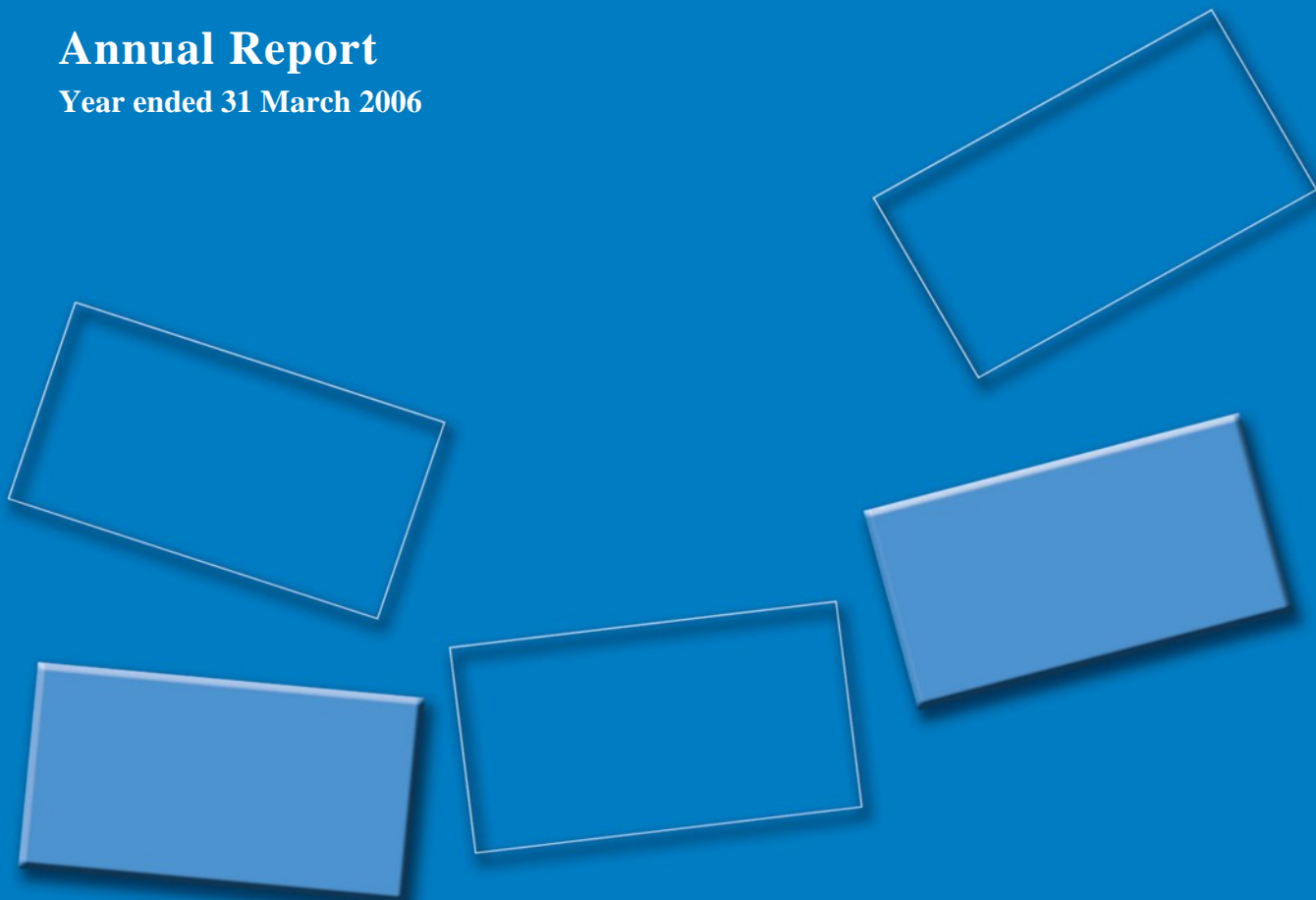


Tessella

Annual Report

Year ended 31 March 2006



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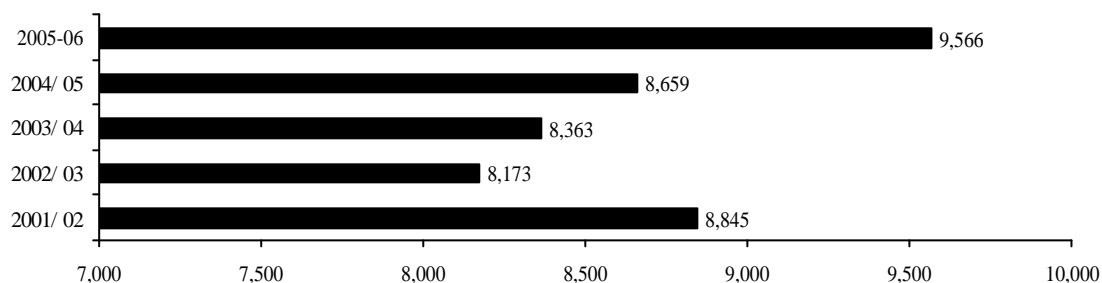
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Company information

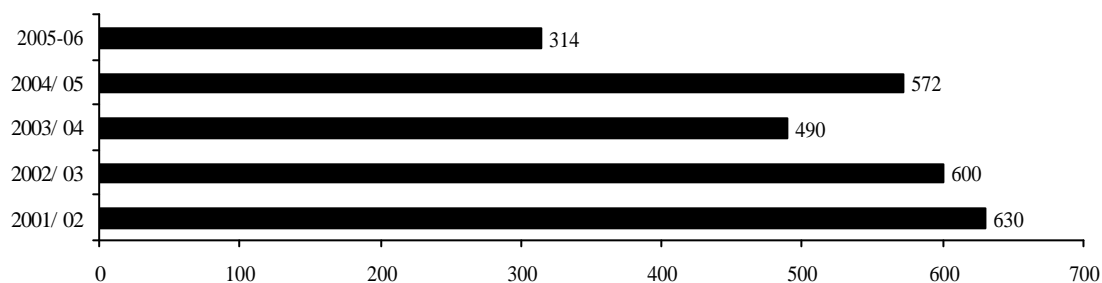
Company registration number	1466429
Registered office	3 Vineyard Chambers ABINGDON Oxfordshire OX14 3PX
Directors	Mr K J Gell BSc ACMA CEng MBCS Mrs J A Gell BSc PGCE Dr P J Townsend ARCS BSc DPhil (Oxon) Mrs B Gell Mrs J M Prosser
Secretary	Mr K J Gell BSc ACMA CEng MBCS
Bankers	National Westminster Bank plc 11 Market Place ABINGDON Oxfordshire OX14 3HH
Solicitors	Darbys Solicitors 52 New Inn Hall Street OXFORD OX1 2QD
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1 Westminster Way OXFORD OX2 0PZ
Website	www.tessella.com

Five year summary

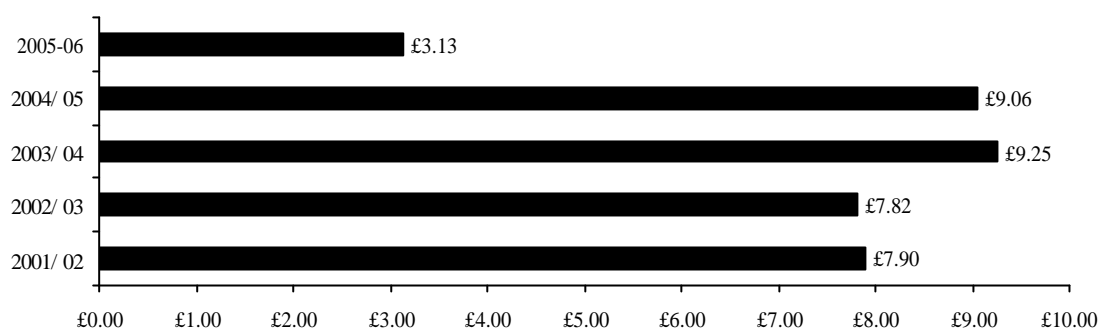
Turnover £ K



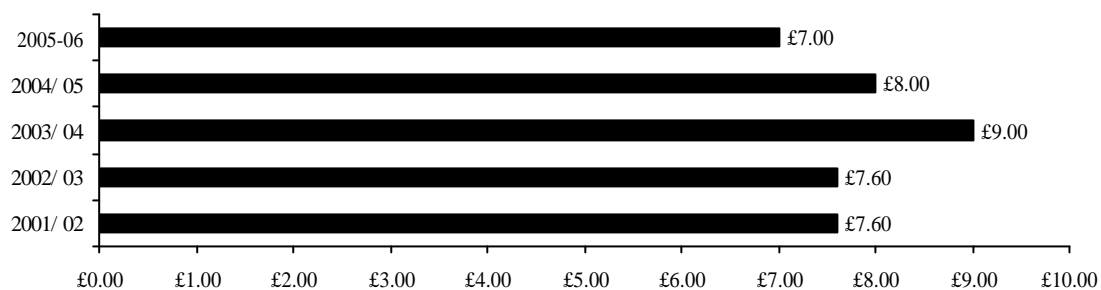
Profit before taxation £ K



Earning per share



Paid and proposed dividends per share (net)



Business review

Tessella uses its unique blend of scientific, engineering and IT skills to solve the most complex technical and business problems in a highly cost-effective way. We have a proven 25-year history of excellence, adding value to demanding public sector and commercial R&D based clients. Tessella now comprises Tessella Support Services plc, Tessella Inc and Analyticon Ltd.

Tessella's services cover software design and development, IT consultancy, infrastructure support and project management. Our enviable reputation for providing high-quality, low-risk, value for money services is backed up by many successful, high-profile projects, plus a high level of repeat business. During the year, we continued to develop our operations in life sciences, energy and chemical, space, defence, environmental, instrumentation, transport, utilities and telecoms, manufacturing and engineering, publishing, public sector, and digital archiving sectors.

Formed in 1994, Analyticon specializes in the design of solutions requiring mathematical modelling, analysis and creative thinking. The company was acquired by Tessella in December 2005. Below, we describe a number of our projects from 2005-2006.

Life Sciences

Tessella is a leading independent supplier of software solutions to the pharmaceutical, biotech, medical and agrochemical communities. With over two decades of experience working with several major life sciences companies, including AstraZeneca, GSK, Pfizer and Syngenta, we pride ourselves on establishing long-term relationships with our clients.

AstraZeneca

This year has seen Tessella consolidate our presence at AstraZeneca's Charnwood research centre, and expand our business to encompass new projects at Alderley Park (Cheshire, UK), Wilmington (Delaware, US), and Mölndal and Lund (in Sweden).

Our consultants continue to work closely with the Discovery Informatics team at Charnwood in the delivery of both global systems and local solutions used by research chemists and biologists at all stages of the drug discovery pipeline. 2005-2006 has also seen the initiation of two cross-site projects involving AstraZeneca in the UK and Sweden. The first of these is targeting the optimization of the end-to-end data pipeline for a scientific department, and has required Tessella to interact closely with a parallel AstraZeneca project team looking at wider business process improvement issues. The second project is Tessella's first work with AstraZeneca's clinical departments, showing not only a geographically expanding relationship but also a growing business relationship.

Syngenta

Tessella has been developing high quality software for many years for Syngenta, including Sample Tracking, Risk Assessment, Instrument Data Archiving, and a Global Residues Research Database. These projects have been successful and have led to significant benefits to the Research and Development functions in Syngenta.

To further cement the close relationship between the companies, Tessella and Syngenta have signed a Framework Agreement. This will allow Syngenta to benefit from discounts based on longer-term commitments, large project values and overall volume. Tessella benefits from simpler contractual procedures, greater stability and predictable workloads.

Tessella is now working on three significant projects that will benefit from these new arrangements:

- The design and development of a prototype Formulation System to enable Syngenta to reduce product development time. Tessella will work in partnership with the hardware suppliers to prove the technical suitability of the proposed system and to enable the implementation to proceed smoothly.
- The integration of the Health and Environmental Risk Modelling System, which Tessella has been supporting for seven years, with the next generation archive. Tessella is providing a team to replace the existing archive with a link to the new Documentum-based archive adopted as a standard within Syngenta.
- Providing a project manager and team members to the central research system that draws together all of Syngenta's active ingredient research activities.

Tessella is delighted to be developing its relationship with Syngenta in new areas and looks forward to many more successful projects.

Adaptive Clinical Trials

Tessella is continuing to work in the exciting field of Adaptive Clinical Trials. Tessella has been involved in drawing up requirements for a system to simulate and analyze 'Seamless Phase 2 / Phase 3 Trials'. Traditionally, after a successfully completed phase 2 trial, it takes several months to identify the best dose for the drug, before the phase 3 confirmatory trial can be started. This not only delays the introduction of the drug but uses up some of the compound's patent life as well. This can represent millions of dollars of lost revenue so pharmaceutical companies are interested in approaches that will reduce this wasted time. The seamless approach can help to increase profits, by helping to plan a combined study that uses suitable statistical methodologies to use the data from the phase 2 part to both select the dose to use in the phase 3 trials and to combine the data.

For another client, Tessella is exploiting its adaptive dose allocation technology to run a Phase 2 proof of concept / dose finding study. Tessella's system uses a combination of an automated phone system, faxes, text messaging and the Internet to co-ordinate the study centres and test subjects. This results in the test subjects using the optimal drug doses, such that it is possible to learn about the drugs and their effects as quickly and safely as possible.

Guy's & St Thomas' Hospital Foundation Trust

The Guy's and St Thomas' NHS Foundation Trust Haemophilia Reference Centre is an accredited clinical and laboratory service for people with bleeding and clotting disorders. Health care professionals from around the world refer patients there for treatment and advice. The Centre provides a home delivery service for blood products that improves patients' quality of life and care.

In 2005 Tessella was appointed to design and develop the monitoring system for the delivery and use of these products, which is absolutely critical to ensure that there is no compromise on patient safety or product control. The project, which included the provision of 125 GPRS (General Packet Radio Service) mobile telephones providing internet access to the system servers, was completed on schedule following final acceptance by the client.

The home delivery monitoring system interfaces with the Haemophilia Reference Centre's existing information management system to form an integrated Haemophilia Patients' Support System and confirms the Centre as a leader in home delivery technology and patient care.

Energy and Chemical

The world's energy and chemical businesses face new challenges in the 21st century from an ever-increasing demand for energy and chemical products, offset by dwindling natural reserves and a need to consider environmental and safety issues. Greater competition drives the need for consolidation and cost reduction, and the challenge for our clients is to stay ahead of the game by taking maximum advantage of the advances in technology. For over two decades Tessella has been building a formidable track record in software innovation, and our experience spans the full range of 'upstream' and 'downstream' activities.

Shell Global Solutions

Over a number of years, Shell Global Solutions and Tessella have developed a good business relationship based on the successful delivery of numerous varied projects, ranging from long-term support and development of hazard management software for Shell Global Solutions HSE Consultancy, through to enterprise-scale, data-driven web applications for oil sample tracking. Shell Global Solutions HSE Consultancy specializes in the management of loss prevention and accident hazards at large chemical and industrial sites. They use software models, validated by experiment, which now form the basis of a number of commercial hazard analysis products. These applications include:

- FRED (Fire, Release, Explosion and Dispersion), which is used to help predict the consequences of the accidental or intended release of chemical products from process, storage, transport or distribution operations.
- Shepherd which incorporates a number of tools to help provide rapid consequence assessment and risk ranking to assist in gaining regulatory approval and compliance.

Tessella has been working with Shell Global Solutions (UK) for the last five years supporting development and providing ongoing assistance with these commercial applications.

{NB: Shell Global Solutions is a network of independent technology companies in the Shell Group. In this report the expression 'Shell Global Solutions' is sometimes used for convenience where reference is made to these companies in general, or where no useful purpose is served by identifying a particular company.}

Space

The complexity of any space mission presents unique technical challenges. Despite these complexities, the space industry, probably more than any other, demands accuracy. Analyticon has expertise in systems engineering, mission analysis, control design, mathematical modelling and detailed analysis. This expertise provides a unique combination of skills to develop accurate solutions to meet the challenges of space.

European Space Agency

Galileo will be Europe's own global navigation satellite system, providing a highly accurate, guaranteed global positioning service under civilian control. It will be inter-operable with the US Global Positioning System and Russia's Global Navigation Satellite System, the two other global satellite navigation systems. Galileo will deliver real-time positioning accuracy down to the metric range with unrivalled integrity. The European Space Agency (ESA) has responsibility for the Galileo project.

GIOVE A was successfully launched on 28 December 2005 and was a critical step in the ESA's Galileo programme, paving the way for Europe's network of navigation satellites. Designed by Surrey Satellite Technology Limited in the UK, the GIOVE A spacecraft will carry out a number of major Galileo objectives – including securing relevant frequencies and validating key technologies.

GIOVE A is the first test satellite for Europe's global navigation system and had to be ready for launch in time to lay claim to the radio spectrum allocated to Galileo, and as a result was completed within an extremely demanding schedule. Analyticon Ltd was sub-contracted by Surrey Satellite Technology Ltd (SSTL) to work with SSTL to design the 'Attitude and Orbit Control System' and to take responsibility for the 'Mission Analysis'.

The accelerated development of GIOVE A meant that exceptionally rapid design response was required to any change in the mission. Analyticon's unique approach to control systems design is built around the capability to respond immediately to changes, as well as allowing enough margin for future unknowns. This approach played a vital part in the success of the mission.

Defence

There is a constant drive in the defence industry for better, faster and cheaper systems. These pressures mean that smart systems must be developed in smarter ways. Analyticon's consultants have the skills to develop the technical innovations demanded by today's defence industry within the constraints of the real world.

UK Royal Navy

The UK Royal Navy is in the process of procuring a new destroyer, the Type 45, which will be a key part of the UK's defences for the first half of the 21st century. When the 'first of class' enters service, scheduled for 2009, it will be one of the most advanced warships in the world. Crucial to the success of the Type 45 will be the SAMPSON Multi-Function Radar, which will combine surveillance and dedicated tracking roles into a single system and represents a major technological advance in terms of surveillance and tracking performance. As an active array radar, SAMPSON can electronically shape and direct its beam, allowing multiple functions to be carried out simultaneously.

BAE Systems are the prime contractors for the Type 45 Destroyer and SAMPSON is designed, developed and delivered by BAE Systems Integrated System Technologies Limited (Insyte). Analyticon's involvement in the project is the development of the tracking algorithms. We have used our expertise in radar, complex systems design and detailed mathematical modelling to design this state-of-the-art tracking system. The complex algorithms have been developed through a detailed mathematical understanding and are supported by an intricate simulation of the radar system and integrated tracking algorithms.

The first SAMPSON radar has now been installed on a copy of the Type 45 ship's foremast at the Insyte Cowes facility on the Isle of Wight, and is undergoing testing. Analyticon, working with Insyte, has been instrumental in the development of a system, that represents a major technological advance in terms of surveillance and tracking performance.

Environmental

Tessella has over fifteen years experience working with environmental science organizations to implement cost-effective, reliable and innovative solutions. The scientific and engineering backgrounds of our staff mean that we are able to understand the complex requirements of our clients across the sector.

Environment Agency

The UK Environment Agency – charged with protecting and improving the environment – is engaged in a multi-year programme to enhance its flood warning capabilities. Tessella is teamed with the Netherlands Consultancy, Delft Hydraulics, who had already developed a single-user flow forecasting system. The team has developed and integrated a multi-user networked software and hardware system into the Environment Agency's operational organization. This new service has been rolled out across three regions (Northeast, Midlands and Southern) and is to be extended to the remaining five regions so that by the end of 2006 it will cover all of England and Wales. The project is now continuing with the development of a centralized web-server application that will provide access to weather forecasts, tide forecasts, comments left by other forecasters as well as flood forecasts made by the Agency.

Tessella is also contributing to a similar system to be provided to SEPA (the Scottish Environment Protection Agency).

West Sussex County Council

The Waste Management Services Unit of West Sussex County Council (WSSC) is responsible for the safe disposal of municipal waste. They have contracted Viridor Waste Management Ltd to run the county's household waste recycling sites, waste transfer stations and composting facilities, and to operate new facilities as they come online.

Tessella worked with the WSSC and Viridor to develop a software system that would: record and process data from all its waste service providers to ensure they achieved their targets, register vehicles authorized to carry waste, monitor the performance of contractors against defined targets, and produce reports on these items. The final system was delivered in April 2005, on time and under budget. The Council now has an integrated and extensible system to manage the contract efficiently, and the system has been well received by the various waste service providers. Following successful delivery of the system, Tessella is providing continuing in-service support including the development of additional analysis and reporting functionality.

This project reached the finals of the 2005 e-Government National Awards (which highlight services improving citizens' and business transaction with councils and other public sector organizations).

Instrumentation

An instrument needs to be more than just the latest technology. It needs to be supported by reliable high quality software with a clearly structured user interface that an operator will find intuitive and simple to use. Tessella has a broad range of software development experience for instrument control, data acquisition, and analysis, including the development of software for devices across many target sectors as well as experience with a broad range of the base technologies. We also have wide-ranging experience in creating tailored acquisition and control solutions for end users.

PerkinElmer

PerkinElmer is a global technology leader in analytical sciences whose wide range of products includes Fourier Transform Infrared (FTIR) spectrometers for materials analysis. There is a small, but significant, market for the infrared analysis of engine lubricants, where the chemical composition of used oils is an important indicator of engine condition and function. Over five years ago, PerkinElmer asked Tessella to develop the software for a new automated oil analysis system called OilExpress; which subsequently captured a significant share of the oil analysis market. During 2005-2006 Tessella carried out a new round of enhancements to OilExpress to upgrade it to use PerkinElmer's new flagship FTIR product, the Spectrum 100 spectrometer. Further, OilExpress was brought into line with the client's most recent other software product releases, reducing the overall support costs for the product range. With Tessella working on the support and evolution of OilExpress, PerkinElmer is able to deploy its in-house system development resources on products for the larger life sciences and chemicals FTIR market sectors.

Transport

In many parts of the world, unprecedented demand is driving existing transport networks close to saturation point. As the growth in passenger and freight traffic continues, improving the availability and reliability of transport solutions is becoming ever more important for governments and travellers alike. For over two decades Tessella has been innovating technologies for clients across the transport sector including the intelligent management of fixed assets and vehicle fleets, real-time condition monitoring, component degradation modelling and failure prediction techniques.

HSBC Rail and New Southern Railway

Current train maintenance regimes can include unnecessary mass component refitting, done purely as a precautionary measure. This results from a lack of detailed understanding of component degradation profiles across a fleet. HSBC Rail and New Southern Railway have joined forces to develop more intelligent ways to monitor and maintain their train fleets. Limited real time train operating data must be collected as a regulatory requirement. This data is required for post-incident investigations but the consortium realized that it can be used to bridge this knowledge gap, especially when additional data is collected.

Tessella has been engaged by the consortium to turn their vision of a next generation train monitoring and diagnosis system into reality. Tessella is combining a custom-written analysis toolkit with 3rd party data-mining tools, to create a flexible hybrid solution adaptable to many situations. Adaptability is crucial, as the understanding of failure mechanisms in modern train fleets is far from complete, and a prescriptive solution defining what to detect and report is not possible. The sheer volume and variety of data available demand great flexibility in its collection and analysis.

Working from fleet-wide data, the analysis tools will provide the information needed to focus regimes onto those maintenance tasks that are truly necessary. Train reliability and availability will improve as a range of problems not currently detectable are caught early, reducing the frequency of in-service failures.

Utilities and Telecoms

The utilities sector is experiencing a highly competitive and rapidly changing business environment, with pressures brought about by the need to reduce environmental impact and satisfy customers, as well as the demands of industry regulators. Tessella has experience across this sector from power station control to telephone billing and from the integrity of gas pipelines to water purity. We routinely work on challenging projects requiring high-quality innovative software with tight time scales.

The telecoms sector also continues to undergo rapid change, with increased demands on the network operators to supply innovative services, such as convergence of mobile and fixed line billing, voice over IP services, and mobile 3G services such as mobile TV and video. Tessella continues to delight our clients with solutions for mobile telecoms devices including advanced PDA web applications, 'one click' user interfaces for mobile phones, and intelligent handset administration tools.

Manufacturing and Engineering

Manufacturing and engineering industries face ever-growing pressures within a highly competitive market. In order to survive and prosper, there is a need to continually search for ways to reduce costs. The time from development to production must be minimized to keep a competitive edge, and at the same time the highest standards of quality must be maintained and even improved. By applying our experience and technical expertise, Tessella adds real value throughout the manufacturing process. We have contributed to a broad range of projects for organizations including major household names and large international enterprises.

ICI Paints

During 2005-2006 Tessella continued to work for ICI Paints, undertaking a number of projects aimed at helping members of the public get the most out of colour. This year's work has built on previous projects and led to the launch of web based colour visualisers for ICI businesses in Eastern Europe, South America, and South East Asia through which local users can paint example rooms. The visualisers also offer help and advice to consumers on various co-ordinating colours and popular schemes. Other software tools have been deployed in DIY stores which enable consumers to decorate their own digital pictures before going on to purchase the appropriate Dulux paint. Interior decorators are also able to use the product to demonstrate their colour schemes and allow their clients to pre-visualise the results before commissioning decorating work.

Unilever

Unilever Corporate Research contracted Tessella to help develop iShakti, the ICT component of Project Shakti, a micro-enterprise venture providing Indian women's self-help groups with business skills and income-generating opportunities through the sale of a range of Hindustan Lever products. iShakti information 'kiosks' are operated and hosted by Shakti Entrepreneurs. iShakti has grown rapidly over the last year so that it now serves several hundred-thousand users across tens of thousands of rural communities. iShakti is an IT-based information service designed to meet rural needs in business agriculture, education, vocational training, health and hygiene, and to promote community sharing of best practices across regions. It provides a direct-to-consumer channel specifically tailored for rural India.

During 2005-2006, iShakti was shortlisted for both the British Computer Society Technology Awards (which reward excellence in computing within the context of business value and social benefit) and the Stockholm Challenge Awards (which reward initiatives that accelerate the use of IT for the social and economic benefit of citizens and communities).

Publishing

Taylor & Francis Journals

Taylor & Francis Journals (part of the Informa Group) is a major publisher of academic journals with production offices around the world. Tessella has continued to support and develop their Central Article Tracking System (CATS). The system allows production staff to store manuscript files in a central repository, and maintain related data in a flexible, web-based environment. It manages all data related to manuscripts and issues, and allows consolidated tracking of articles through the production process, from initial receipt (either electronically through CATS, or via email or post) to copyediting, typesetting, quality control, printing and online.

Taylor & Francis are committed to improving their customer services continually, and are rolling out a full online content delivery platform. Much of the work carried out by Tessella for Taylor & Francis this year has been to enable CATS to feed the online platform with full-text manuscripts, and associated metadata.

Working closely with the Taylor & Francis team, we have substantially modified the business model implemented in CATS to enable staff to track articles for both online and print publication. This has given Taylor & Francis more control over their publishing process, and enables them to provide a richer experience for their customers.

Public Sector

Tessella has over 25 years experience in software development for the public sector. During 2005-2006, we used our scientific and technical expertise to enable our public sector clients to improve the services they offer. We draw on the best practice in the commercial world to ensure that public sector projects are carried out according to a rigorous methodology, and are delivered on time and to budget.

UKAEA

UKAEA Culham operates the Joint European Torus (JET), the world's largest fusion experiment, and is also the home of the UK Fusion Research Programme. Tessella's involvement with UKAEA and JET has been continuous for over 20 years. During 2005-2006, nine Tessella consultants supported a variety of projects for both JET and the UK Fusion Research Programme.

For the UK Fusion Research Programme, Tessella continued to develop the European Fusion Materials Database. This system will store and make available accurate, up-to-date data, which can then be used by European scientists to make informed decisions about material selection. The materials database has been extended over the last year to increase its search capabilities and to include functionality for property reporting and graphing. Tessella presented an initial version of the system to the Fusion community at ISFNT-7, the Seventh International Symposium on Fusion Nuclear Technology, Tokyo, Japan in May 2005. In addition, Tessella consultants provided key technical input on the requirements for a second database, the ITER Neutronics Database, for UKAEA's successful bid for this work.

UKERNA

UKERNA manages the operation and development of JANET, the government-funded network for education and research within the UK. Tessella has developed a system for UKERNA that reflects its business processes, some of which involve complex workflows for installing and upgrading the connections to customer organizations. This enables UKERNA to initiate and track the many actions that are needed for successful completion of these processes, reliably and efficiently within the required timescales.

The application utilizes Oracle Workflow as its workflow engine. Tessella has closely integrated the user interface with the workflow to provide relevant and timely feedback to the users on the current state of each process: for example, which steps are complete and which currently require action. The interface automatically shows the correct page depending on the step in the process and the user's role. This close integration is essential because the processes have many pages and notifications, and comparably large numbers of conditions and branches into parallel activities. Tessella has also developed functionality to ensure that the correct data is set at the correct step by authorized users. The database is designed to hold these rules, giving it the flexibility to change as UKERNA's processes evolve.

Using the system, UKERNA is able to provide an improved service to its customers, increase automation of repetitive tasks and better track and monitor its work.

Digital Archiving

Efforts to manage the long-term maintenance of digital information are continuing around the world with a number of new initiatives in which Tessella is playing a part.

In order to assess the nature and scale of the problem, The Digital Preservation Coalition launched the UK Digital Preservation Needs Assessment survey; designed to reveal the extent of the risk of loss of, or degradation to, digital material held in public and commercial sectors. Tessella carried out the survey, which looked at current practice and future requirements in government bodies, archives, museums, libraries, education, scientific research organizations, and pharmaceutical, environmental, nuclear, engineering, publishing and financial institutions. The final report (entitled 'Mind the Gap') identified 18 core needs and included priorities for action that can be put into practice in any organization of any size.

Pertinent information and practical tools will underpin any widespread responses to digital record problems. The UK National Archives is leading the way with PRONOM, a repository of file format information to support preservation and migration. Tessella has recently upgraded PRONOM to include a wider range of information, and to incorporate a downloadable tool for automatic file format identification using binary signatures.

In addition, it is still necessary to improve the techniques required for preservation. To this end, the Koninklijke Bibliotheek (the National library of the Netherlands) and the Nationaal Archief of the Netherlands have contracted Tessella to design and develop an open source modular emulator for digital preservation. The key objective and opportunity of this project is to demonstrate that emulation can be a practical and cost-effective tool for long-term digital preservation and to build the core of a tool that can be used in practice. Development of the modular emulator has started, and the work is scheduled to be completed in April 2007.

Following a year-long preliminary design phase, the US National Archives and Records Administration (NARA) selected the Lockheed Martin led team, which includes Tessella Inc, to develop its Electronic Records Archives system, to store, maintain and make available all federal electronic records with the aim of preserving the recorded history and heritage of the United States. The contract announcement in September 2005 marked the beginning of the ERA system development, with the initial operating capability targeted for release during fiscal year 2007.

Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 March 2006.

Principal activities and business review

The company's principal activity during the year was the provision of software services to leading scientific and engineering organisations in the UK, Europe and the USA. Tessella is a consulting led business; so rather than promoting particular technology solutions we start by trying to understand our customers' objectives and needs and devising tailored solutions to meet them.

It has been another successful year, with strong organic growth in the existing business supplemented by the strategic acquisition of Analyticon Limited, a key player in the Space and Defence sector. Robust operational management has continued to play an essential role in maintaining margins and we continue to manage the company using a series of key performance indicators. Our business model is built on long-term relationships with key clients and we plan to continue with this approach. Our core business continues to perform well, exploiting its growing reputation as a strong independent consulting business, and winning significant new contracts. The acquisition of Analyticon gave us an entry into the Space sector, increased our share in the UK defence market and widened our portfolio of services.

Tessella's continued success depends on the recruitment and development of highly skilled and motivated individuals and we devote significant resources to these areas. Our standards remain extremely high with two thirds of staff holding a PhD or equivalent qualification in science and engineering disciplines. The natural technical aptitude of our staff provides great flexibility to work across our customer base, which is a key asset for the operational management of the company. The transfer of work or staff between branches in response to changes in demand is an important element in optimising client service, financial performance and broadening staff experience.

Results and dividends

Turnover, excluding Analyticon was up 5.7% to £9,155k (2005: £8,659k and up 10% overall to £9,566k Operating Margins have fallen to 3.1% (2005: 6%), largely as a result of increased spend in sales and marketing which we will capitalise on in the coming year. We have entered the new financial year with a solid balance sheet, which includes a £750k loan from a Director used to fund the purchase of Analyticon Ltd.

The following tables reflect the company's contribution to the local economies through the payment of business taxes.

Total Tax Contribution 2006

Taxes paid by the company	UK £K	Holland €K	USA \$K
Corporation Tax	62	1	84
Business Rates	36	-	-
Employers' Social Security	568	25	67
Total	666	26	151

Report of the directors

Taxes paid by the company	UK	Holland	USA
	£K	€K	\$K
Employee - PAYE	1,216	N/A	N/A
Employee - Social Security	378	9	N/A
VAT	1,392	82	N/A
Total	<u>2,986</u>	<u>91</u>	<u>-</u>

The directors have recommended the following dividends:

	2006	2005
	£	£
Final dividend proposed of £4.00 per ordinary share (2005 : £2.00)	234,312	117,018
Interim dividend paid of £3.00 per ordinary share (2005: £6.00)	175,527	351,054
	<u>409,839</u>	<u>468,072</u>

Financial risk management objectives and policies

The Board determines the policies to manage the key financial risks arising from the Group's operations, which are liquidity, interest rate and foreign currency risks.

Group policy is to ensure that the business has sufficient funding in place to meet any foreseeable peak in borrowing requirements. The Company has an overdraft facility of £200K which is rarely utilised. In addition, there is also a loan of £750K from a Director, used to fund the purchase of Analyticon Ltd, on which interest is payable at 3% above base rate. Funds surplus to requirements are transferred to deposit accounts.

At the year end the Group did not have any financial instruments in place to hedge against exposure to foreign currencies (mainly dollar:sterling). This was reviewed and steps have been taken to hedge against currency risk where appropriate.

The directors and their interests

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each	
	At	At
	31 March 2006	1 April 2005
Mr K J Gell BSc ACMA CEng MBCS	40,000	40,000
Mrs J A Gell BSc PGCE	10,000	10,000
Dr P J Townsend ARCS BSc DPhil (Oxon)	2,910	2,910
Mrs B Gell	-	-
Mrs J M Prosser	-	-
	<u> </u>	<u> </u>

At 31 March 2006 Dr P J Townsend held 418 share options (2005: 418) at £55.00, which are exercisable once certain performance conditions are satisfied but before 15 January 2009.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 company and of the group and of the profit or loss of the group for that year. 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

K J Gell
Director
17 October 2006

Report of the independent auditor to the members of Tessella Support Services plc

We have audited the group and parent company financial statements ("the financial statements") of Tessella Support Services plc for the year ended 31 March 2006 which comprise the principal accounting policies, group profit and loss account, group and company balance sheets, group cash flow statement, statement of total recognised gains and losses and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and the information given in the Report of the Directors is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the five year summary, the business review and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Report of the independent auditor to the members of Tessella Support Services plc (continued)

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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. 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 group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements for the year ended 31 March 2006.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD
18 October 2006

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

The principal accounting policies of the group have remained unchanged from the previous year, apart from the adoption of FRS 21 "Events after the balance sheet date" and UITF 40 "Revenue recognition and service contracts". The impact of these changes are described in more detail below.

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If a group company declares dividends to the holders of its equity shares after the balance sheet date, the group does not recognise those dividends as a liability at the balance sheet date. Previously where those equity dividends were proposed after the balance sheet date but before approval of the financial statements they were recorded as liabilities at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements which have not been shown as liabilities at the balance sheet date are disclosed in the notes to the financial statements. The financial effect of this change in accounting policy is set out in note 1.

The policy for turnover has been modified following the issue of UITF 40 and the effect of this change is set out in note 1. Where it has been considered appropriate, certain balance sheet amounts have been reclassified compared to last year and reference to this has been made in the relevant notes.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over 10 years from the date of acquisition. The results of companies acquired or disposed of are included in the group profit and loss account after or up to the date that control passes respectively.

Related parties transactions

The company owns 100% of its subsidiary's share capital. Accordingly, the company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" from disclosing transactions with other group members.

Turnover

Turnover is recognised as earned when, and to the extent that, the group obtains the right to consideration in exchange for its performance under these contracts. It is measured at the fair value of the right to consideration, which represents amounts chargeable to clients, including expenses and disbursements but excluding VAT.

Revenue is generally recognised as contract activity progresses so that for incomplete contracts it reflects the partial performance of the contractual obligations. For such contracts the amount of revenue reflects the accrual of the right to consideration by reference to the value of the work performed. Revenue not billed to clients is included in debtors as unbilled receivables.

Goodwill

Goodwill, representing the excess of the fair value of the consideration given on an acquisition of a business over the fair values of the identifiable net assets acquired, is capitalised. Such purchased goodwill is amortised over 10 years on a straight line basis. An annual impairment review is carried out on goodwill balances held.

Investments

Investments are recorded at cost, less any permanent diminution in value.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property	- 2.5% per annum - straight line basis
Fixtures and fittings	- 25% per annum - reducing balance basis
Equipment	- 33.3% per annum - reducing balance basis

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The group operates defined contribution schemes for its employees. The assets of the schemes are held separately from those of the group. The annual contribution payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that 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.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Group profit and loss account

	Note	2006 £	2005 (restated) £
Turnover	2		
Continuing operations		9,154,781	8,658,671
Acquisitions		410,821	–
		<u>9,565,602</u>	<u>8,658,671</u>
Cost of sales	3	(209,462)	(172,847)
Gross profit		<u>9,356,140</u>	<u>8,485,824</u>
Other operating charges		<u>(9,062,543)</u>	<u>(7,967,278)</u>
Operating profit:	4		
Continuing operations		266,475	518,546
Acquisitions		27,122	–
Group operating profit		<u>293,597</u>	<u>518,546</u>
Interest receivable		35,228	53,451
Interest payable and similar charges	7	(15,092)	–
Profit on ordinary activities before taxation		<u>313,733</u>	<u>571,997</u>
Tax on profit on ordinary activities	9	(130,724)	(41,732)
Profit for the financial year	22	<u>183,009</u>	<u>530,265</u>

All of the activities of the group are classed as continuing.

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

Group balance sheet

	Note	2006 £	2005 (restated) £
Fixed assets			
Intangible assets	11	246,658	–
Tangible assets	12	550,718	512,697
		<u>797,376</u>	<u>512,697</u>
Current assets			
Debtors	14	2,441,789	1,699,762
Cash at bank		822,265	859,286
		<u>3,264,054</u>	<u>2,559,048</u>
Creditors: amounts falling due within one year	15	<u>2,801,717</u>	<u>1,765,693</u>
Net current assets		<u>462,337</u>	<u>793,355</u>
Total assets less current liabilities		<u>1,259,713</u>	<u>1,306,052</u>
Provisions for liabilities			
Deferred taxation	17	55,112	15,152
		<u>1,204,601</u>	<u>1,290,900</u>
Capital and reserves			
Called-up equity share capital	21	58,509	58,509
Share premium account	22	130,220	130,220
Other reserves	22	48	48
Profit and loss account	22	1,015,824	1,102,123
Shareholders' funds	23	<u>1,204,601</u>	<u>1,290,900</u>

These financial statements were approved by the directors on 17 October 2006 and are signed on their behalf by:

K J Gell
 Director

Balance sheet

	Note	2006 £	2005 (restated) £
Fixed assets			
Tangible assets	12	497,855	501,759
Investments	13	858,232	32,258
		<u>1,356,087</u>	<u>534,017</u>
Current assets			
Debtors	14	2,357,561	1,672,307
Cash at bank		515,898	568,646
		<u>2,873,459</u>	<u>2,240,953</u>
Creditors: amounts falling due within one year	15	<u>2,842,954</u>	<u>1,549,484</u>
Net current assets		<u>30,505</u>	<u>691,469</u>
Total assets less current liabilities		<u>1,386,592</u>	<u>1,225,486</u>
Provisions for liabilities			
Deferred taxation	17	55,112	15,152
		<u>1,331,480</u>	<u>1,210,334</u>
Capital and reserves			
Called-up equity share capital	21	58,509	58,509
Share premium account	22	130,220	130,220
Other reserves	22	48	48
Profit and loss account	22	1,142,703	1,021,557
Shareholders' funds		<u>1,331,480</u>	<u>1,210,334</u>

These financial statements were approved by the directors on 17 October 2006 and are signed on their behalf by:

K J Gell
 Director

Group cash flow statement

	Note	2006 £	2005 (restated) £
Net cash inflow from operating activities	24	975,829	268,238
Returns on investments and servicing of finance			
Interest received		35,228	53,451
Interest paid		(15,092)	—
Net cash inflow from returns on investments and servicing of finance		20,136	53,451
Taxation		(107,881)	9,374
Capital expenditure			
Payments to acquire subsidiary		(825,974)	—
Cash acquired on acquisition of subsidiary		296,707	—
Net cash flow from acquisitions and disposals of tangible fixed assets		(103,293)	(51,730)
Net cash outflow from capital expenditure		(632,560)	(51,730)
Equity dividends paid		(292,545)	(525,807)
Cash outflow before financing		(37,021)	(246,474)
Financing			
Issue of equity share capital		—	258
Share premium on issue of equity share capital		—	11,972
Net cash inflow from financing		—	12,230
Decrease in cash	24	(37,021)	(234,244)

Other primary statements

Statement of total recognised gains and losses

	2006	2005
	£	<i>(restated)</i> £
Profit for the financial year		
Attributable to the shareholders of the parent company	183,009	530,265
Currency translation differences on foreign currency net investments	23,237	15,078
Total recognised gains and losses for the year	206,246	545,343
Prior year adjustment - UITF 40	184,841	-
Prior year adjustment - FRS 21	117,018	
Total gains and losses recognised since the last financial statements	508,105	545,343

Notes to the financial statements

1 Changes in accounting policies

Comparative figures have been restated to reflect a change in accounting policy in connection with revenue recognition following the publication of UITF 40, Revenue recognition and service contracts.

The allocation of the impact of this change in policy to the current and prior periods has involved a degree of estimation which reflects the difficulty in identifying, after the event, the exact circumstances and considerations that subsisted at the end of each of the previous two accounting periods.

As a result of the above changes, comparative figures for the year ended 31 March 2005 have been adjusted as follows:

	Profit for the year £	Net assets £
As previously reported	516,811	975,587
Prior year adjustments for UITF 40: 2005	13,454	13,454
Periods prior to 2005	–	184,841
Prior year adjustment for FRS 21: 2005	–	117,018
	<u>530,265</u>	<u>1,290,900</u>

2 Turnover

The turnover and profit before tax are attributable to the one principal activity of the group.

An analysis of turnover is given below:

	2006 £	2005 <i>(restated)</i> £
United Kingdom	8,351,069	6,944,583
United States	897,306	1,198,016
Europe	317,227	516,072
	<u>9,565,602</u>	<u>8,658,671</u>

3 Analysis of cost of sales and net operating expenses

	Continuing Operations £	Acquired Operations £	Total £
Year ended 31 March 2006			
Cost of sales	<u>200,892</u>	<u>8,570</u>	<u>209,462</u>
Administrative expenses	<u>8,687,414</u>	<u>375,129</u>	<u>9,062,543</u>
Year ended 31 March 2005 (<i>Restated</i>)			
Cost of sales	<u>172,847</u>	<u>-</u>	<u>172,847</u>
Administrative expenses	<u>7,967,278</u>	<u>-</u>	<u>7,967,278</u>

4 Operating profit

Operating profit is stated after charging:

	2006 £	2005 £
Amortisation	27,407	–
Depreciation of owned fixed assets	95,402	94,004
Loss on disposal of fixed assets	12,915	2,363
Auditor's remuneration:		
Audit fees	21,000	13,900
Other fees	54,085	6,100
Operating lease costs:		
Other	<u>205,586</u>	<u>168,895</u>

5 Particulars of employees

The average number of staff employed by the group during the financial year amounted to:

	2006	2005
	No	No
Number of billable staff	134	110
Number of administrative staff	36	31
	<u>170</u>	<u>141</u>

The aggregate payroll costs of the above were:

	2006	2005
	£	£
Wages and salaries	6,174,754	5,477,517
Social security costs	668,659	596,217
Other pension costs	796,026	749,634
	<u>7,639,439</u>	<u>6,823,368</u>

6 Directors

Remuneration in respect of directors was as follows:

	2006	2005
	£	£
Emoluments receivable	276,996	382,785
Value of company pension contributions to money purchase schemes	516,355	498,776
	<u>793,351</u>	<u>881,561</u>

Emoluments of highest paid director:

	2006	2005
	£	£
Total emoluments (excluding pension contributions)	92,861	131,868
Value of company pension contributions to money purchase schemes	250,000	269,902
	<u>342,861</u>	<u>401,770</u>

6 Directors (continued)

The number of directors who accrued benefits under company pension schemes was as follows:

	2006	2005
	No	No
Money purchase schemes	<u>3</u>	<u>3</u>

7 Interest payable and similar charges

	2006	2005
	£	£
Interest payable on bank and other borrowing	<u>15,092</u>	<u>-</u>

8 Dividends

As disclosed within the accounting policies, FRS 21 was adopted during the year. The financial effect of this standard has been:

In 2006 dividends of £117,018 (2005: £174,753) were paid in relation to dividends proposed in prior years. These dividends have been disclosed as an appropriation of profit in reserves.

9 Taxation on ordinary activities

(a) Analysis of charge in the year

	2006	2005
	£	£
Current tax:		
UK Taxation		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	99,389	64,000
Adjustment in respect of prior year	-	(71,806)
	<u>99,389</u>	<u>(7,806)</u>
Foreign tax		
Current tax on income for the year	394	46,586
Adjustments in respect of prior periods	(9,019)	-
	<u>(8,625)</u>	<u>46,586</u>
	90,764	38,780
Deferred tax:		
Origination and reversal of timing differences	39,960	2,952
Tax on profit on ordinary activities	<u>130,724</u>	<u>41,732</u>

9 **Taxation on ordinary activities (continued)**

(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% (2005 - 30%).

	2006	2005
	£	£
Profit on ordinary activities before taxation	313,733	571,997
Profit on ordinary activities by rate of tax	94,120	171,599
Expenses not deductible for tax purposes	2,589	841
Depreciation for period in excess of capital allowances	(1,790)	7,857
Non qualifying - capitalised revenue expenditure	(75,077)	(53,144)
Marginal relief	(3,632)	(13,245)
Adjustments to tax charge in respect of previous periods	2,607	(75,842)
Adjustment in respect of overseas subsidiary	71,947	714
Total current tax (note 9(a))	90,764	38,780

10 **Profit attributable to members of the parent company**

The profit dealt with in the accounts of the parent company was £413,691 (2005 - £197,124).

11 **Intangible fixed assets**

Group	Goodwill
	£
Cost	
Additions	274,065
At 31 March 2006	274,065
Amortisation	
Charge for the year	27,407
At 31 March 2006	27,407
Net book value	
At 31 March 2006	246,658
At 31 March 2005	-

12 Tangible fixed assets

Group	Leasehold property £	Fixtures and fittings £	Equipment £	Total £
Cost				
At 1 April 2005	294,599	353,795	530,145	1,178,539
Additions	–	15,756	89,078	104,834
Subsidiary acquisitions		35,647	188,262	223,909
Disposals	–	–	(223,064)	(223,064)
At 31 March 2006	<u>294,599</u>	<u>405,198</u>	<u>584,421</u>	<u>1,284,218</u>
Depreciation				
At 1 April 2005	49,819	244,000	372,023	665,842
Charge for the year	7,365	24,929	63,108	95,402
Subsidiary acquisitions	–	36,203	144,661	180,864
On disposals	–	–	(208,608)	(208,608)
At 31 March 2006	<u>57,184</u>	<u>305,132</u>	<u>371,184</u>	<u>733,500</u>
Net book value				
At 31 March 2006	<u>237,415</u>	<u>100,066</u>	<u>213,237</u>	<u>550,718</u>
At 31 March 2005	<u>244,780</u>	<u>109,795</u>	<u>158,122</u>	<u>512,697</u>

Subsidiary acquisitions are those assets which were held by Analyticon Limited upon acquisition by Tessella Support Services plc during the year.

Company	Leasehold property £	Fixtures and fittings £	Equipment £	Total £
Cost				
At 1 April 2005	294,599	351,145	515,261	1,161,005
Additions	–	13,749	81,112	94,861
Disposals	–	–	(94,364)	(94,364)
At 31 March 2006	<u>294,599</u>	<u>364,894</u>	<u>502,009</u>	<u>1,161,502</u>
Depreciation				
At 1 April 2005	49,819	243,104	366,323	659,246
Charge for the year	7,365	26,215	52,465	86,045
On disposals	–	–	(81,644)	(81,644)
At 31 March 2006	<u>57,184</u>	<u>269,319</u>	<u>337,144</u>	<u>663,647</u>
Net book value				
At 31 March 2006	<u>237,415</u>	<u>95,575</u>	<u>164,865</u>	<u>497,855</u>
At 31 March 2005	<u>244,780</u>	<u>108,041</u>	<u>148,938</u>	<u>501,759</u>

13 **Investments**

Company	Group companies £
Cost	
At 1 April 2005	32,258
Additions	825,974
At 31 March 2006	<u>858,232</u>
Net book value	
At 31 March 2006	<u>858,232</u>
At 31 March 2005	<u>32,258</u>

At 31 March 2006 the company held 100% of the ordinary share capital of Tessella Inc., a company incorporated in the United States and whose principal activities are similar to that of the parent company. At 31 March 2006 Tessella, Inc. had capital and reserves of (£158,552) and made a loss before tax of £236,821 for the year then ended.

Investment in this company consists of \$100 for the acquisition at par of Tessella Inc's share capital and a loan of \$49,900 to the same company. The loan bears no interest and has no date of repayment.

During the year the group acquired 100% of the issued ordinary share capital of Analyticon Limited, a company incorporated in England and Wales, for a consideration of £751,909, satisfied in cash. The purchase of Analyticon Limited has been accounted for by the acquisition method of accounting.

The profit before tax of Analyticon Limited for the four month period ended 31 March 2006 was £29,230.

The assets and liabilities of Analyticon Limited acquired were as follows:

	Book and fair value
	£
Tangible	43,045
Stocks	140,009
Debtors	148,935
Bank and cash	296,707
Total assets	628,696
Trade creditors	(189)
Other creditors	(76,598)
Total liabilities	(76,787)
Net assets	551,909
Purchased goodwill capitalised included within investments	274,065
	<u>825,974</u>
Satisfied by:	
Cash	751,909
Professional fees	74,065
	<u>825,974</u>

The impact of the cashflows arising from the acquired company on the group during the year are not material and therefore have not been disclosed.

14 Debtors

	2006	The group	2006	The company
	£	2005 (restated) £	£	2005 (restated) £
Trade debtors	1,381,066	967,304	1,091,862	935,798
Amounts owed by group undertakings	–	–	361,942	97,572
Unbilled receivables	855,463	579,439	739,039	493,025
Other debtors	77,077	73,897	71,217	69,818
Prepayments and accrued income	128,183	79,122	93,501	76,094
	<u>2,441,789</u>	<u>1,699,762</u>	<u>2,357,561</u>	<u>1,672,307</u>

15 Creditors: amounts falling due within one year

	2006	The group 2005 (restated)	2006	The company 2005 (restated)
	£	£	£	£
Payments received on account	503,465	434,592	467,991	269,202
Trade creditors	75,046	54,586	74,425	51,641
Amounts owed to group undertakings	–	–	242,271	49,846
Directors' loan accounts	750,000	–	750,000	–
Corporation tax	141,762	107,881	107,708	63,618
Other taxation and social security	580,652	462,257	531,373	459,227
Other creditors	11,764	12,685	6,281	10,545
Accruals and deferred income	739,028	693,692	662,905	645,405
	<u>2,801,717</u>	<u>1,765,693</u>	<u>2,842,954</u>	<u>1,549,484</u>

16 Pensions

The group has three money purchase pension arrangements, all of which attract employer contribution, dependent on the length of service, and allow optional employee contribution.

- a) Stakeholder Pension Scheme with Friends Provident: this is the main scheme and is the only scheme open to new employees. This scheme was established early in the financial year to 31 March 2002. Employees choose their own investment strategy from a range of funds available. Existing employees can choose to leave the older schemes and join this arrangement and many have opted to do so.
- b) Personal Pension Plan with Equitable Life: this scheme was established in March 2000 and was closed to new members when the Stakeholder Pension Scheme was established. Although many staff have chosen to transfer from this scheme some remain in it. Employees choose their own investments and so can decide whether or not their pension is invested in "with profit" funds.
- c) Small Self Administered Pension Scheme: this scheme was set up for the benefit of two directors.

17 Deferred taxation

The movement in the deferred taxation provision during the year was:

	The group		The company	
	2006	2005	2006	2005
	£	£	£	£
Provision brought forward	15,152	12,200	15,152	12,200
Increase in provision	39,960	2,952	39,960	2,952
Provision carried forward	55,112	15,152	55,112	15,152

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

Group and company	2006		2005	
	Provided	Unprovided	Provided	Unprovided
	£	£	£	£
Excess of taxation allowances over depreciation on fixed assets	22,783	-	22,783	-
Other timing differences	32,329	-	32,329	-
	55,112	-	55,112	-

18 Commitments under operating leases

At 31 March 2006 the group had annual commitments under non-cancellable operating leases as set out below:

The group	Land and buildings	
	2006	2005
	£	£
Operating leases which expire:		
Within 1 year	73,292	79,790
Within 2 to 5 years	182,280	78,338
	255,572	158,128

At 31 March 2006 the company had annual commitments under non-cancellable operating leases as set out below:

The company	Land and buildings	
	2006	2005
	£	£
Operating leases which expire:		
Within 1 year	36,878	55,029
Within 2 to 5 years	98,280	78,338
	135,158	133,367

19 Contingencies

The company and the group had no contingent liabilities at 31 March 2006 (2005: £nil).

20 Related party transactions

The company rents two properties owned by the Tessella Executive Retirement and Death Benefit Scheme. Two of the trustees, Mr K J Gell and J A Gell, are also directors of the company. Rent paid in the year ended 31 March 2006 amounted to £57,250 (2005: £57,250). No amount remained unpaid at 31 March 2006 (2005: nil).

Loans totalling £750,000 were made to the company by Mr K J Gell and J A Gell during the year. These loans attract interest at 3% over the base rate of interest and are repayable on demand. Interest totalling £14,384 was paid on these loans during the year.

The company and the group is ultimately controlled by Mr K J Gell by virtue of his shareholding in the company.

21 Share capital

Authorised share capital:

	2006	2005
	£	£
250,000 Ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>

Allotted, called up and fully paid:

	2006		2005	
	No	£	No	£
Ordinary shares of £1 each	<u>58,509</u>	<u>58,509</u>	<u>58,509</u>	<u>58,509</u>

Share options

	Number of shares	Exercise price per share
		£
Currently exercisable until 17 November 2007	545	47.40
Exercisable once certain performance criteria are met but before 15 January 2009	1,118	55.00

22 Reserves

Group	Share premium account £	Other reserve £	Profit and loss account £
At 1 April 2005	130,220	48	786,810
Prior year adjustment (note 1)	–	–	315,313
Restated balance as at 1 April 2005	130,220	48	1,102,123
Profit for the year	–	–	183,009
Equity dividends	–	–	(292,545)
Foreign currency translation differences	–	–	23,237
At 31 March 2006	130,220	48	1,015,824

Company	Share premium account £	Other reserve £	Profit and loss account £
At 1 April 2005	130,220	48	742,871
Prior year adjustment	–	–	278,686
Restated balance as at 1 April 2005	130,220	48	1,021,557
Profit for the year	–	–	413,691
Equity dividends	–	–	(292,545)
At 31 March 2006	130,220	48	1,142,703

23 Reconciliation of movements in shareholders' funds

	2006	2005
	£	<i>(restated)</i> £
Profit for the financial year	183,009	530,265
New equity share capital subscribed	–	258
Premium on new share capital subscribed	–	11,972
Equity dividends paid (FRS 25)	(292,545)	(525,807)
Foreign currency translation differences	23,237	15,078
Net addition to shareholders' funds	(86,299)	31,766
Opening shareholders' funds	1,290,900	957,275
Prior year adjustment (see note 1)	–	301,859
Closing shareholders' funds	1,204,601	1,290,900

24 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2006	2005
	£	<i>(restated)</i> £
Operating profit	293,597	518,546
Amortisation	27,407	–
Depreciation	95,402	94,004
Loss on disposal of fixed assets	12,915	2,363
(Increase)/decrease in debtors	(451,111)	296,490
Increase/(decrease) in creditors	978,081	(656,287)
Loss on foreign currency retranslation on debt	19,538	13,122
Net cash inflow from operating activities	975,829	268,238

Reconciliation of net cash flow to movement in net funds

	2006	2005
	£	£
Decrease in cash in the period	(37,021)	(234,244)
Movement in net funds in the period	(37,021)	(234,244)
Net funds at 1 April 2005	859,286	1,093,530
Net funds at 31 March 2006	822,265	859,286

Analysis of changes in net funds

	At 1 Apr 2005 £	Cash flows £	At 31 Mar 2006 £
Net cash:			
Cash in hand and at bank	<u>859,286</u>	<u>(37,021)</u>	<u>822,265</u>
Net funds	<u>859,286</u>	<u>(37,021)</u>	<u>822,265</u>

25 Capital commitments

The directors have confirmed that there were no capital commitments at 31 March 2006 or 31 March 2005.

26 Post balance sheet events

On 11 August 2006 69 ordinary shares were issued for consideration of £47.40 per share.

On 12 October 2006 a dividend of £4 per share was declared. The total dividend was £234,312 based on 58,578 shares in issue.

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