

Tessella plc

**Annual Report
for Year Ended 31st March 2010**

www.tessella.com

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“Tessella were a natural choice, not just because of their software development expertise, but also their experience in simulation and knowledge of the pharmaceutical industry.”

Vlad Dragalin,
Assistant VP of
Statistical Research
& Application, Wyeth

Key Points

Tessella delivered £15.8m of revenue and remains 100% self financed with no bank debt or third party loans. Revenues contracted by 9% from 2008/09 as clients reacted to the recession by constraining new investments, resulting in delays and cancellations to programmes.

Profit of £0.9m was achieved through a combination of tight cost control and a clear focus on delivering measurable value to our clients.

The vast majority of our clients are blue chip organisations, but even the biggest and most well run corporations have felt the cold winds of a deep recession with weak global demand affecting all sectors and much uncertainty in the overall economic environment. It was no surprise therefore that these organisations chose to cut operating costs and restrict investment. The global recessionary effects in the market overall took time to filter through our blue-chip client base before impacting the programmes Tessella is traditionally involved with, mainly in the R&D space. This meant a very strong year-on-year revenue growth for Tessella in 2008/09 of 21% with this “gain” partly reversed (-9%) in 2009/10.

Only because we employ the very best people can we deliver our projects. The board would like to pay tribute to the professionalism and dedication of all our staff who have individually and collectively contributed so much.

Operational Highlights

Repeat business - As we entered the year, we recognised the impending implications of a severe recession in each of our three geographic regions (UK, US and Netherlands) and determined that we should focus a greater proportion of our business development resource into deepening the business relationship with existing clients. As a result, repeat business in the year was 88% with Tessella developing a greater penetration in many top accounts.

A broader range of services - Tessella’s reputation in the area of consulting within the niche characterised by complexity and science is growing. Consulting revenues rose in the period and we continue to see strong demand for Tessella’s style of business analysts, i.e. those who can understand how IT can solve the most complex of problems. Investment in developing Tessella’s consulting skills continued, including the introduction of a range of internal staff training programmes. We also instigated an initiative aimed at raising external awareness to re-position Tessella in the minds of our clients, as a consulting company, as well as a technology provider.

World leading Service Lines - Tessella has gained an enviable position and is recognised as an industry leader in digital archiving and preservation, as well as adaptive clinical trials. In order to maximise the market opportunity, both Digital Preservation and Clinical Trials Technologies are internally organised as discrete Service Lines, with dedicated sales staff, world-renowned thought leaders and mature business plans. Both Service Lines have proven successful in the period in generating significant new orders.

Intellectual Property growth - Tessella develops leading edge solutions for many of its clients and the technology created can often be exploited in adjacent markets, leading to lower risk, lower cost and reduced time to market for our clients. Tessella has successfully concluded a number of agreements with its clients to exploit the technologies for mutual gain.

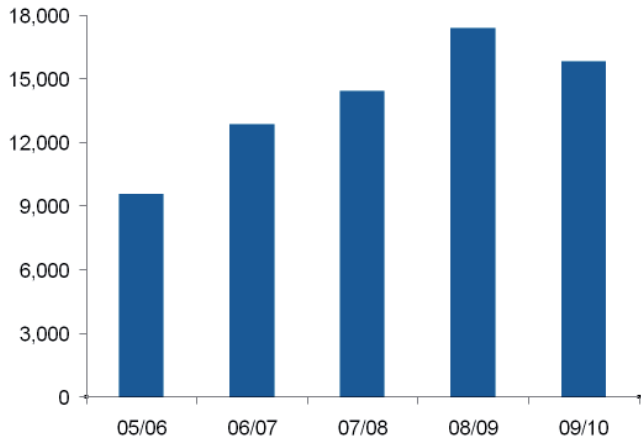
Market sector strategy - Tessella has continued to make good progress against its industry sector objectives. Our strategy is to focus on a small number of sectors to increase depth of domain understanding, and yet have sufficient spread to mitigate over-reliance on any one sector and benefit from counter-cyclical economic trends.

To this end, one initiative in the period was to re-organise our business to focus a greater proportion of dedicated business development effort on the energy sector, as we recognise the growth opportunities in the oil, gas and nuclear industries. The success of this approach is reflected by the substantial increase in revenues from this sector, increasing from 11% of group turnover last year to 16% in 2009/10.

People - Tessella’s success is fundamentally due to the quality and commitment of our staff. Most services companies will say the same, however, Tessella is different. Each Tessella fee-earning staff member is not only a highly professional consultant, but every one of our staff is also a first class scientist, with 60% of staff holding PhD qualifications. These “people” credentials, when added to deep domain knowledge, robust and proven methodologies and the ability to leverage existing Intellectual Property, provide a powerful mix that can address the levels of complexity inherent in most Tessella assignments.

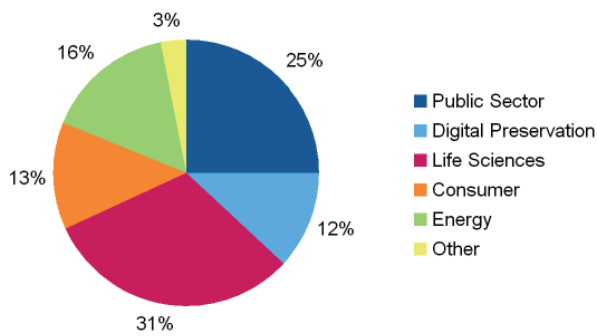
Financial highlights

Revenue £K - 5 years

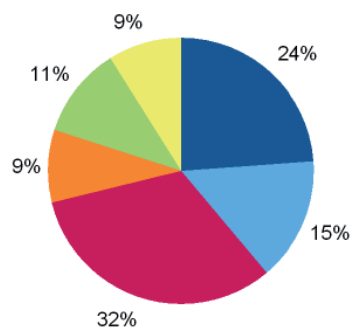


Revenue by market sector

2009/10:

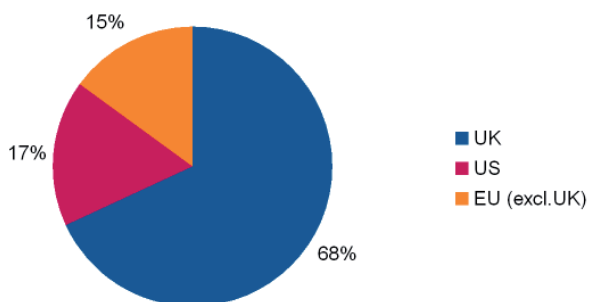


2008/09:

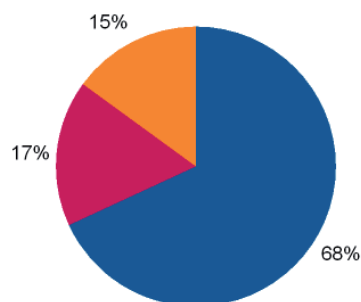


Geographical distribution of revenue

2009/10:



2008/09:



“Tessella’s background in science and their professional approach to system design and development [...] means we have been able to significantly increase our overall capacity, efficiency and quality.”

**Aart Wismeijer,
Senior Researcher,
HTE – AkzoNobel**

Report of the Directors

Having expected tough trading conditions, with worsening economic conditions, the board implemented a number of initiatives that can be summarised as follows:

- Tightened control of discretionary cost and the alignment of internal resources to meet anticipated demand.
- Focused business development resources on existing clients to maximise account development opportunity.
- Ensured that our services considered the client need for value for money and generation of measurable business (or organisational) benefit.

Tessella’s three-fold response, together with the continued execution of our corporate strategy (summarised below) helped ensure revenue contraction was limited, redundancies minimised and operating profits protected.

- Focus on our chosen vertical industry sectors.
- Develop ever-closer relationships with our clients.
- Support our key clients on a cross-geographic basis.
- Enhance our portfolio of services, particularly in terms of developing our consulting offering.
- Find new ways of attracting, retaining and motivating our staff.
- Increase the profile and awareness of Tessella.
- Seek opportunities to acquire businesses to help achieve our ambitions.

In these difficult circumstances, the board would like to express its sincere thanks to Tessella’s staff for their understanding and support and for their tremendous contribution to the success as commented on and commended by so many of our clients.

New Clients

The past year, with its challenging trading climate, has meant that a delicate balance has had to be achieved between focus on existing clients through account development, versus investment in attracting new clients. Therefore, we are pleased to report that, in addition to generating significant levels of repeat business, the following new clients were added in the period:

- Siemens AG Osterreich
- Tieto Estonia AS
- Daiichi
- Johns Hopkins University

World Leading Service Lines

Tessella has, over the past couple of years, developed two key Service Lines. One Service Line assists pharmaceutical companies to improve the way in which drug trials are conducted (which we refer to as “Adaptive Clinical Trials”) and the other provides digital archiving and preservation solutions to National Archiving Institutions.

Adaptive Clinical Trials - We have witnessed a marked increase in the adoption of adaptive clinical trials within the pharmaceutical sector during the year, as the market has started to become more established, at least with the early adopters. A growing acceptance from the FDA in the US has also encouraged investment into these innovative techniques, which use statistical models and simulation to improve decision making in terms of how trials can be run and importantly, modified, through the life of the trial. The benefits to our clients include reduced time and cost, but also improved efficacy as results can be achieved with fewer patients. As a result of encouraging signs of demand, Tessella has commercialised an offering known as FACTS™, built around IP owned by Tessella and our partners, Berry Consultants. During the period, new sales were made to a number of major pharmaceutical companies.

Digital Archiving and Preservation - Storing digital data is not considered by many as a particularly troublesome issue. However, for those organisations and businesses that have a legal duty to guarantee retrieval of archived information in 10, 100 or even 1,000 years time (as with the nuclear industry) the inherent challenges are significant, particularly so where the data formats are complex e.g. scientific data, distributed data, design drawings, etc.

To overcome these problems, Tessella and The UK National Archive jointly developed a software-based technology platform that allows organisations to incrementally evolve its data formats in a controlled and intelligent manner, such that future retrieval is guaranteed, irrespective of hardware and software obsolescence. Tessella has now delivered

solutions to The US National Archives and Records Administration, The British Library, The Wellcome Trust, The Malaysian Government, The Swiss Archives, The Dutch Archives, and has most recently been awarded a circa £1m project for the Austrian Federal Chancellery.

In the commercial sector, a number of Tessella's clients are investigating digital archiving and preservation solutions, in order to achieve regulatory compliance and to more effectively handle long-term knowledge management.

Growing our IP

Predictive Analytics - We have enhanced our Service Line model in the year with the creation of an additional (third) Service Line - Predictive Analytics, which is a form of Business Intelligence and comprises both software and services. This capability has developed from an initial and hugely successful project for Southern Rail. During the year, Tessella concluded a Commercial Exploitation Agreement with Southern Rail to commercialise and exploit the underlying technology deployed for Southern. The project is known as the Train Automated Performance Analysis System (TAPAS) and received much industry acclaim, winning four Rail Industry awards for its innovation. As commented by Southern, fleet reliability doubled with a 63% reduction in train delays and a 66% reduction in train cancellations, resulting in delay fines reducing by £1.1m pa. This was achieved as a direct result of TAPAS being deployed.

The ability to predict how assets will perform in the future through analysis of their actual performance in operation has huge potential and we will look to build on the success to date, both within the rail sector and more widely into our other core markets.

A Broader Range of Services

Consulting - Many of Tessella's clients have benefited from the deployment of bespoke software applications and/or algorithms developed on their behalf by Tessella over the past 30 years. More recently, Tessella has acknowledged its capability in assisting clients in the form of stand-alone consulting services, where deployment of bespoke software may or may not be involved. Tessella has successfully engaged in this niche area, where an understanding of how science and IT come together, and their impact and consequences on the business/financial models, needs to be understood. Our initial focus has been to build the consulting capabilities around one of Tessella's most established markets, life sciences, and this has proven to be a receptive market. Tessella will continue to expand its capabilities and capacity to undertake consulting assignments within the life sciences sector and will increasingly offer similar services to all Tessella's clients.

Partnering - Tessella is known and valued for its independence, with no conflicts in terms of share ownership or loyalties to hardware or software vendors. However, this has not limited Tessella's ability to partner with various third party vendors where such an arrangement has been in the best interest of our clients. As encouraged by our clients, we have worked with a number of such companies often providing clients with services to customise complex analytical software products, so that our clients get the very best return on their investment from these large and powerful software suites.

Client Relationships

Tessella has an enviable track record of retaining clients, achieving exceptionally high levels of repeat business, client satisfaction scores and receiving truly gratifying client commendations.

Tessella has worked with many of its clients for well over 10 years; indeed Tessella's first ever client, the UK Atomic Energy Authority, has been a client since the company was founded, 30 years ago! We would like to take this opportunity to thank all our long-standing clients for maintaining their involvement with Tessella during the past three decades.

Higher-level engagements - As Tessella has grown, so has the need for more senior-level client relationships, to ensure that the aims and objectives of Tessella and our clients are completely aligned, and also to maintain the engagement mechanisms necessary for the successful delivery of large complex projects. Tessella's greater emphasis on consulting as a stand-alone service has simultaneously added to, and helped to address, the need for greater senior-level engagement, since executives higher up the organisational stack have been responsible for initiating most of our consulting assignments.

Our ambition is to further develop the higher-level contacts and to this end we have appointed two senior-level advisers: Retired Air Marshal Sir Peter Norriss is working with Tessella as our military and homeland security adviser and Stan Bradbury (ex. CIO of Shell Global Solutions) is advising on our approach in the oil sector.

Our project staff are also helping build long-term mutually beneficial relationships; not only do they share much of their working days with our clients, but they choose to join together in various social activities too.

"I firmly believe that one of the major reasons for our success has been the expertise and professionalism that Tessella has brought to the project."

Staff

Despite a considerable drop in recruiting activity during the period under report, Tessella maintained its strong links with the leading universities in the UK, USA and The Netherlands. Tessella continued to sponsor a number of prizes and continues to benefit from strong relationships forged mainly by our staff with their former universities.

Tessella continues to keep the bar very high with respect to the quality of recruits, with applications often exceeding 200 for each vacancy publicised. We will continue to seek to attract and retain the very brightest, innovative, pragmatic and most passionate individuals in our industry. We are very proud of the academic achievements of our staff, approximately 60% of whom possess a PhD.

We extended the range of benefits on offer to our staff and have created a more flexible total benefits scheme, with the introduction of private healthcare arrangements, the ability to buy additional leave and to take periods of unpaid and part paid leave. We have also sought to increase the level of ongoing engagement with our staff, through the establishment of staff consultative groups.

Tessella benefited from excellent staff loyalty in a difficult year, with resignations less than 10%.

Geography

Revenues contracted equally across all geographies, so the percentage of revenues by geography remained the same as last financial year. Business with AstraZeneca, Shell and BP grew in the US reflecting the increasing desire of our global clients to engage with us on initiatives across their sites in both the EU and the US.

Looking Forward

Whilst most commentators would suggest the worst of the global recession is behind us, fears remain in the UK over a double-dip recession, the effect of unprecedented levels of public sector spending cuts and a general feeling of economic uncertainty.

Fortunately, the majority of Tessella's clients are global corporations with access to world markets, including regions continuing to experience strong demand for their products and services. We would anticipate our clients continuing to carefully scrutinise new investments and to seek to drive out inefficiency. In many ways, this plays to Tessella's strengths, as we offer services that can drive down operational running costs, yet also deliver real measurable value in helping clients grow and transform their businesses.

The fundamental principles that have guided Tessella's growth will continue to be adhered to. At the centre of our strategy is the focus on achieving outstanding performance on behalf of our clients. This can only be achieved by a highly professional, dedicated and motivated workforce and the board are grateful to each and every one of our staff, for their outstanding performance last year.

We therefore look forward with cautious optimism.

Results and Dividends

Group revenue for the year was down 9% to £15.8m (2009: £17.4m), PBT remained at a similar level to the last financial year: £925k (2009: £941k).

Total tax contribution 2009/10:

Taxes paid by the group:

	UK	NL	US
	£k	€k	\$k
Corporation Tax	41	10	2
Business rates	42	-	-
Employers' social security	937	59	148
Total	1,020	69	150

Taxes collected by the group:

	UK	NL	US
	£k	€k	\$k
Employees' PAYE	2,504	158	495
Employees' social security	802	33	154
VAT	1,495	114	N/A
Total	4,801	305	649

The directors have recommended the following dividends:

	2010	2009
	£	£
Final dividend paid of £12 per ordinary share (2009 proposed: £6)	720,024	360,012
Interim dividend paid of £0 per ordinary share (2009: £5)	0	300,010
	720,024	660,022

Principal Activities

The principal activity of the group during the year was the provision of software services to leading scientific and engineering organisations in the UK, Europe and the US. The services include feasibility studies, user requirement definition, software design, software development, installation and on-going support.

Financial Risk Management Objectives and Policies

The group is exposed to a variety of financial risks which result from its operating activities. The board is responsible for coordinating the group's risk management and focuses on actively securing the group's short to medium term cash flows. The most significant financial risks to which the group is exposed are described below.

KPIs

The group uses a series of key financial performance indicators to manage the business, including;

1. revenue, gross profit and operating expenses;
2. PBIT as % of revenue;
3. average revenue per customer and number of significant customers; and
4. staff utilisation.

“We had intensive contact with the designers of SDB and the developers who implemented our solution, and we benefited a lot from that. Communication paths were short, and Tessella was also very proactive. We dealt with very competent people at every stage of the project.”

**Urs Meyer,
IT Architect, Swiss
Federal Archives**

Cash flow and liquidity risk

The group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and securely. Funds surplus to requirements are transferred to deposit accounts.

Credit risk

The group's credit risk is primarily attributable to its trade debtors. The group has no significant concentration of credit risk, with exposure spread over a large number of clients.

Currency risk

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 position will be reviewed and action will be taken to hedge against currency risk where appropriate.

Directors' and Officer's Liability Insurance

The company, as permitted by s236A of the Companies Act 2006, maintains insurance cover on behalf of the directors and company secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company.

Directors

The directors who served the company during the year were as follows:

Mr K J Gell BSc ACMA CEng MBCS

Dr P J Townsend ARCS BSc DPhil (Oxon)

Mr G Stephen BEng MBA

Mr J Tilbury BA

Mr A Gaby

Mr R Walker BSc

Mrs J A Gell BSc PGCE

Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- There is no relevant audit information of which the company's auditor is 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 auditor is 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, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to read 'K J Gell', is written over a light grey rectangular background.

K J Gell
Director

27th July 2010

“By working with Tessella, we have found a supplier who not only understands our software needs, but also very quickly gets their heads around the wider scientific needs of our work.”

**Stephen Pascoe,
STFC**

Business Review

Life Sciences

Sector Review & Outlook

The challenges facing the world's pharmaceutical companies are many-fold, with strong competition from generic drug manufacturers, increasing ethical standards demanded by regulators, tougher disease areas to treat and the decreasing success rate for drugs in clinical trials. However, with an increasingly ageing society demanding better medical treatment, demand for improved drugs continues unabated.

The pharmaceutical sector remains by far the largest industrial sector to invest in R&D on a global (and UK) basis. Technology and related services will continue to be demanded to reduce the cost, time and risk of the hugely expensive and lengthy life cycles involved in getting a drug to market. The goal of improving efficiency and effectiveness in the R&D environment remains constant and, as new approaches to the utilisation of drug combinations are tested, the complexity increases greatly. This in turn requires new technology to keep pace with these advancements.

Tessella has identified three key areas where we believe our offerings can add significant value to the pharmaceutical industry:

- Smarter clinical trials - using adaptive statistical techniques to design trials which can be run more quickly and cheaply.
- Continuous improvement in drug discovery - using simulation techniques to get the right balance of cost, risk and value for each drug discovery project.
- Enabling Translational Research - maximising return on information by applying rich data analysis and management techniques.

Achievements in 2009/10

Clinical trials

During the financial year, we made substantial developments working with our partners, Berry Consultants, and major client, Eli Lilly. In the autumn of 2009, we launched our Fixed and Adaptive Clinical Trials Simulator (FACTS™) in the US and Europe. FACTS™ has been licensed to several other leading pharmaceutical companies and there is growing interest from others. In February 2010, the US Food and Drugs Administration (FDA) issued guidance recommending the use of advanced statistics and computer simulation to improve the design and execution of clinical trials. We expect this to encourage other companies to consider licensing FACTS™.

Translational research

Tessella is working with AstraZeneca to develop advanced image analysis techniques to improve drug discovery. AstraZeneca has saved cost and time by applying these techniques, enabling them to process considerably larger volumes of data than was previously possible manually, and are now able to put together studies on scales never previously contemplated. This work spans multiple research areas and uses software tools provided by our partner, Definiens.

When Novartis needed an image management system for *in vivo* imaging with common scope and business process for scientific groups in the US and Europe, they engaged Tessella business analysts to evaluate potential solutions and make a recommendation.

Continuous improvement in drug discovery

Identifying the physical structure of protein targets and protein/ligand combinations is a crucial phase in the discovery and development of drugs. Tessella has continued to develop the workflow system used by AstraZeneca to manage and automate their protein crystallography. The system increases process efficiency and facilitates the re-use of knowledge, avoiding costly re-work. This experience led Bristol Myers Squibb (BMS) to select Tessella for a similar automation project. Although BMS's requirements were different, we were able to deliver a solution rapidly. The solution fitted with existing business processes removing the need for costly business process re-engineering.

Roche chose Tessella's recently established Consultancy practice to carry out a study to develop a global, harmonised, robust and scalable platform for chemical inventory management across all Roche sites. Our consultants developed a prioritised set of high-level requirements and conducted a vendor selection exercise, helping Roche to reduce risk, identify gaps and increase the likelihood of successful planning around pilot evaluation.

Energy

Sector Review & Outlook

Whilst analysts may not achieve consensus in terms of the precise level of future global energy demand or the amount of global reserves, it is not disputed that extraction of these precious resources will become increasingly difficult as there is no more “easy oil & gas” to extract. As a direct consequence we see a number of trends that support our assertion that technology (and related consulting) will increasingly play its part in helping the oil and gas producers achieve their corporate ambitions. For example, oil and gas producers are seeking to reduce cost and improve efficiency through performance improvement of plant, facilities and infrastructure and are therefore deploying technology solutions, such as remote asset condition monitoring, which is a Tessella strength.

Another factor that leads us to conclude that the market will remain strong is the high level of R&D investment, including investment in the underlying technology to optimise the R&D outcomes. Also, the priority and emphasis placed on Health, Safety and the Environment has created demand for risk modelling, simulation and visualisation programmes. Furthermore, an ageing workforce within the industry will drive greater use of knowledge management techniques to capture, store, retrieve and share valuable business data and information.

In the UK civil nuclear market, two key developments are taking place. The first is the recognition that nuclear waste decommissioning has to proceed if the UK is to securely store and safeguard its nuclear waste. Tessella has been at the forefront of the IT/IS strategy that will form part of the solution. The second is the feeling of a renaissance in the nuclear industry, created by the real probability of the nuclear new build programme being given the green light. Another great challenge for the industry is how to retain the knowledge base with an ageing workforce. Tessella has been positioning itself to exploit both decommissioning and new build as they both move forward.

Tessella's key offerings to the energy sector fall under the following categories:

- Health, Safety and the Environment - using quantitative risk assessment, computer modelling and visualisation techniques to help identify and mitigate risk.
- Predictive Analytics & Asset Optimisation - improving asset performance and reliability through data analysis and computer modelling techniques.
- Knowledge management - capturing expert knowledge and embedding this in IT systems to preserve it for the upcoming generation of workers.

Achievements in 2009/10

Health, Safety and the Environment (HSE)

We have continued to develop our relationship with Shell as one of our major oil & gas clients. Tessella is a preferred supplier to Shell for specialist scientific software services and business analysis. We have established ourselves as a key player in Shell's business, sitting between Shell subject matter experts and offshore software developers.

Tessella has carried out several HSE projects for Shell, including explosion risk modelling and the development of tools to aid the placement of fire and gas detectors in refineries.

For BP, Tessella is developing the Offshore Major Accident Risk tool (OMAR), which will help their engineers to prevent the occurrence of serious accidents on offshore facilities. OMAR models the risks involved in fire and explosion events, blowouts, riser failures, ship collisions, helicopter collisions and earthquakes. It allows the user to see a 3D representation of the facility with the ability to zoom and fly through the model. This gives a much better feel for the 3D nature of offshore facilities, and the interdependency of the different elements.

The Kashagan field is operated by an international consortium of 7 major oil companies under the North Caspian Sea Production Sharing Agreement. The field is exposed to severe offshore elements, with temperatures rising to 40 degrees celsius in the summer and falling to -35 degrees celsius in winter, and produces a light oil with a high gas-oil ratio and a very high hydrogen sulphide (H₂S) content. H₂S is extremely toxic and potential exposure puts personnel working at the field at high risk. With our partner, Risktec, Tessella developed a custom Quantitative Risk Assessment (QRA) system to meet the specific requirements of this unique environment, something that off-the-shelf products could not do.

Predictive analytics & asset optimisation

Within the UK civil nuclear sector, Tessella is using its experience in signal processing and data analysis to monitor the condition of high-value assets. This work helps to reduce maintenance costs and also has a positive impact on HSE issues.

"I was impressed by the requirements gathering techniques Tessella used. They were absolutely vital in getting this highly abstracted problem into a form we could all understand and agree to."

**Simon Green,
Chief Engineer,
Southern Rail**

Knowledge management

For BP, Tessella has developed the Reservoir Engineering Toolkit (RET). This provides a common framework with modules corresponding to particular engineering tools and services. It brings together the diverse range of applications and spreadsheets currently used by reservoir engineers, with the aim of providing consistency, improved change management and more control over intellectual property.

Tessella has carried out an important consultancy study for the UK Nuclear Decommissioning Authority as part of its Managing Radioactive Waste Safely programme. Tessella has advised on the data architecture for the Geosphere Characterisation Programme (GCP) which will comprise detailed surface and subsurface investigations required to acquire and interpret information on the geological, hydrogeological and environmental conditions at potential geological repository sites selected for the safe disposal of nuclear waste.

Consumer Industries

Sector Review & Outlook

The consumer industry sector's R&D expenditure on a global and UK basis may be lower than that invested in other sectors where Tessella operates, but there is still a core of scientifically-based work which plays well to our strengths. Food, cosmetic and other domestic products are covered by stringent regulations, which are not dissimilar to those in the pharmaceutical industry. Given the heavy restrictions on animal testing, companies like Unilever now rely heavily on bioinformatics and computer modelling to ensure the safety of their products.

The competitive edge of some consumer products are dependent on extra performance, derived from specialist additives, or cost-savings derived from novel manufacturing processes. Some of the high throughput experimentation techniques developed in the pharmaceutical industry are now being deployed to bring these benefits to the consumer industries.

The internet has completely revolutionised the way in which consumer goods are marketed and sold. Simply providing on-line brochures is no longer adequate. Internet technologies linked to branded products are being used to provide real value to consumers. Increasingly, these approaches are using computer simulations and complex data analysis to provide that value.

Tessella's key strengths in this sector are:

- R&D productivity - High Throughput Experimentation - using robotics and computer modelling to increase productivity in the R&D laboratory.
- Market research and product development - using sophisticated data collection, analysis and computer simulation to capture, interpret and predict consumer behaviour and support consumer trials.
- Safety Assurance - software to support the regulatory process.
- Web augmented products - enabling complex online behaviour to add value to products.

Achievements in 2009/10

Unilever has been a major Tessella client for many years. However, during this year, our relationship stepped up a level as we were awarded a 3 year preferred supplier contract with Unilever operations in the UK, Netherlands and the US. Tessella's relationship with Unilever is built around genuine mutual interest as our revenues are directly linked to the achievement of Unilever's key performance indicators. This is part of Unilever's approach to maximising value delivered by suppliers. Unilever selected Tessella because our staff have a strong understanding of the demands of R&D informatics and are well-versed in effective IT quality procedures.

Tessella has been a key partner in the development of Imperative Health, from the original prototyping work at Unilever, through to the development and deployment of the commercial system available today. Our ability to understand the client requirements, translate these into a robust software solution and to work with graphic designers and offshore software developers has been a key factor in the success of the project.

Imperative Health is a spin-off business from Unilever's R&D labs, providing an innovative on-line health behaviour change and coaching service designed to help private individuals and company employees develop and sustain healthier lifestyles. The service uses intelligent algorithms and knowledge-based technology to provide tailored behaviour change programmes that tackle lifestyle goals and objectives such as: reducing blood pressure and cholesterol, controlling diabetes, improving fitness and losing weight.

Tessella worked with ICI Paints for many years to provide sophisticated image analysis and colour-matching technology for their Dulux websites, including the MousePainter application which allows consumers to virtually decorate on-screen images of their own homes. Developments have continued following the acquisition of ICI's paint business by AkzoNobel. The latest release includes the ColourClick application, which allows users to match the colours of their home furnishings or other favourite objects with Dulux paint colours.

Public Sector

Sector Review & Outlook

Tessella's clients include Government Departments in the UK, US, The Netherlands and other European countries. Our speciality is in projects with a high scientific content or with high complexity. Government-funded scientific research laboratories are a natural home for us, but we also work in the defence, space, transport and forensic sectors.

Whilst future Public Sector cost cutting in our domestic markets is inevitable in the coming period, and Tessella may not be completely unaffected, the extent to which Tessella is embedded within these long-term programmes should help mitigate the worst effects of these cuts on Tessella's future revenues.

Achievements in 2009/10

Digital archiving & preservation

Tessella is well-established as the leading innovator of technology for digital archiving and long-term record preservation. Tessella's Safety Deposit Box (SDB) technology was developed in partnership with the UK National Archives and has now been selected by nine organisations including national archives and libraries in Europe and beyond. 2009 saw the completion of successful deployments at the Swiss and Dutch National Archives and new contract wins at the Austrian Chancellery Archive and the Estonian National Archives. SDB version 4 was released during the year and we have set up an active SDB User Group to contribute to the future development programme.

Archives and libraries remain at the forefront of this emerging technology, but increasingly, commercial organisations are coming to understand the need to develop long-term digital preservation strategies. Tessella has provided consultancy on archiving within the pharmaceutical, aerospace and geoscience sectors.

During the year, Tessella won a place on a key US research data preservation project. The team, called 'Data Conservancy' is led by Johns Hopkins University (JHU) Sheridan Libraries, who were awarded a \$20 million, 5 year grant from the National Science Foundation (NSF) as part of the DataNet program. The project is part of a \$100 million NSF effort to establish a national cyberinfrastructure to support the long-term preservation and curation of scientific data.

The scope of the project is for the Data Conservancy team to build a data research infrastructure for the management of the increasing amounts of digital information created for teaching and research, with an emphasis on enabling new scientific discoveries through data integration. Tessella's expertise in digital preservation, combined with our 30 year heritage of scientific research, made us an ideal partner for this project.

Science Research

ISIS is the world's leading pulsed neutron and muon source, located at the prestigious Rutherford Appleton Laboratory in the UK. MANTID is a software tool developed by ISIS and Tessella to provide visualisation and data transformation support for data collected from the ISIS instruments. MANTID has been made available under open source licence for other neutron scattering facilities to use and extend. This has resulted in further development opportunities for Tessella at a major research laboratory in the US.

The successful collaboration between Tessella and ISIS has demonstrated the benefits of using professional software developers in academic research, allowing ISIS staff to concentrate on the science while Tessella delivers robust, high-quality software to meet their needs.

JANET(UK), the organisation that runs the UK's education and research network, and Tessella have developed Netsight, a powerful, centralised monitoring system, for the UK-wide network that provides the network operators with higher levels of visibility into network performance and availability. JANET looked at off-the-shelf products, but these were aimed at traditional IT environments and lacked the flexibility to provide data to JANET's network operators. Working with Tessella enabled them to build a custom solution that fitted their specific needs.

Netsight can also be used to monitor other JANET managed services, such as the UK Access Management Federation, and to collect power usage data of the JANET network enabling carbon footprint calculations to be made. Tessella's ongoing project management and software development expertise have been instrumental to the overall success of the project.

"Tessella impressed us with their experience in modelling, data analysis and asset condition management, as well as their unique ability to apply scientific thinking to business challenges."

**Dr Carl Steele,
Technology
Manager, Sellafield**

Corporate and Social Responsibility

Tessella believes making a profit and growing our business goes hand in hand with responsibility to clients, partners, employees, local communities, and the environment.

Respecting our Clients

On all of our of clients' projects, our objectives are to:

- Address their real business need;
- Bring value to their business;
- Be cost effective;
- Behave ethically at all times.

Ethical Relationships with our Partners

We strive to build ethical relationships with our business partners and suppliers, to mutually support each others' businesses. We pay our bills promptly and treat our suppliers fairly. The average number of days which the company took to pay creditors was 30 (2009: 28). We value their contribution to our business.

Engaging Employees

Our employees are our greatest asset and our success has been built on recruiting, retaining and developing the best possible technical and non-technical staff. We have a lower staff churn rate than the industry sector average. Via our Investors in People programme, our employees are encouraged to develop to their full potential. We offer them 20 training days per year, three times the industry norm, which reaps rewards for them, our company and our clients.

Our offices are safe places to work; we comply with all relevant health and safety legislation and regulations, together with best practice guidelines recommended by national health and safety authorities. All employees attend a half-day first aid course.

We are an equal opportunities employer.

Supporting our Local Communities

Tessella Den Haag participated in the Dutch national voluntary event, Doet, and helped a local primary school to refurbish their garden - <http://www.montessorischoolhoutwijk.nl/>.



Tessella Den Haag ready to work

Tessella Abingdon employees volunteered to help the John Masefield Cheshire Home in Burcot, Oxfordshire. Gail Crowther, Volunteer Co-ordinator at John Masefield Cheshire Home, said: "We are thrilled with the work that Tessella did and are very impressed with their organisational skills, with such a professional job done in such a short time."



Volunteers from Tessella Abingdon

Environment

Tessella recognises that it has a responsibility to manage the environmental impacts which arise through its operations and, for many years has been committed to being an environmentally conscious company, conducting its business in an ethical and socially responsible manner. Tessella is now making a formal commitment to manage and reduce its environmental impacts by implementing an Environmental Management System and achieving certification of this to the ISO 14001 Environmental Management System Standard in Summer 2010, having already passed the stage-one assessment in Spring 2010.

Through its Environmental Management System, Tessella will identify, on an ongoing basis, the activities and operations which result in the most significant environmental impacts and set improvement targets and create management plans to reduce the impacts. In parallel, Tessella will ensure compliance with all applicable environmental legislation and will aim to prevent pollution.

Directors' Biographies



Kevin Gell
Managing Director of Tessella plc

Kevin Gell founded Tessella in 1980. He has led the business through 30 years of profitable growth, moving its emphasis from systems support and applications development to become a leading provider of technology and consulting services to government organisations and some of the world's most successful companies. Kevin was responsible for developing operations across the UK and Tessella's expansion into mainland Europe and the US. His passion for delivering solutions that exceed clients' expectations and his commitment to excellence runs deep within Tessella's culture.

Prior to founding Tessella, Kevin obtained a Physics degree from Birmingham University and worked for IBM for ten years, during which time he qualified with the Chartered Institute of Management Accountants. Kevin has played an active role within the CBI and is a member of the Industrial Advisory Board for the UK's Knowledge Transfer Network.



Peter Townsend
Commercial Director of Tessella plc

Dr Peter Townsend is Tessella's Commercial Director and is responsible for developing and implementing the company's overall business strategy. This includes managing Tessella's central Marketing, Sales and HR functions. Over the past few years Peter has been responsible for moving Tessella's focus from being a supplier of IT skills to being a provider of sophisticated software solutions to scientific, technical and engineering problems.

Peter gained a Bachelors Degree in Botany from Imperial College, London, followed by a Doctorate from Oxford University. He joined Tessella in 1980 and has held various technical and managerial roles, playing a key role in the growth of the company. He was appointed to the Tessella board in 1989, initially as Director responsible for the company's ISO 9001 quality programme and subsequently as Marketing & Sales Director in 1996. Peter is also Vice President, Commercial of Tessella Inc.



Grant Stephen
CEO of Tessella Inc; Director of Tessella plc

Grant Stephen has been Chief Executive Officer of Tessella Inc since its foundation in 2003, and was appointed to the board of parent Tessella plc in 2006. He has built up Tessella's organisation in the United States since late 2001, growing the client base across a range of sectors, attracting top-flight staff and spreading the word about Tessella's specialised services throughout the US market. From our offices in Boston and Washington DC, he manages the rapidly expanding activities of Tessella across the United States. Grant is also Chair of the Life Science Informatics Committee at the Massachusetts Biotechnology Council.

Grant qualified with a Bachelors Degree in Engineering from the University of Glasgow and later went on to attain his MBA. He joined Tessella in 1996 as a sales executive, looking after existing clients and growing new accounts in sectors as diverse as biotechnology, instrumentation and chemicals. His role as CEO of Tessella Inc involves him in all aspects of the US business, ranging from staff management, financial performance and resource allocation through to marketing and business development.

Jon Tilbury **Director of Tessella plc**

Jon Tilbury is the Director responsible for Tessella's Abingdon Division. Jon has been with Tessella for over 20 years and has worked in many roles within the company including programming, system design, project management, technical management and business development in many different industry sectors.

This experience means Jon appreciates all aspects of Tessella's business and how we serve our clients. It has enabled him to make significant improvements to processes and service offerings, and led to an excellent understanding of the issues confronting Tessella's clients. Under Jon's leadership, his division has demonstrated significant growth.

Jon joined Tessella in 1986, after a degree in Materials Science from Oxford. He is a member of the Institute of Directors, completing his Certificate in Company Direction in 2000.



Alan Gaby **Director of Tessella plc**

Alan Gaby is the Director responsible for Tessella's Burton, Stevenage, Warrington and Den Haag branches. Alan joined Tessella in November 2006 with 20 years' experience in the IT industry, where he has led business transformation and high growth (organic and acquisition) strategies.

Prior to joining Tessella, Alan held the position of Chief Operating Officer and Main Board Director with the European consulting and technology company VEGA Group plc and contributed to the significant turn-round and growth of the business during his tenure. Alan joined VEGA in 1998 from the global IT services firm, EDS, where he was Commercial Director, having previously been part of the management team of software development and systems integrator SD-Scicon plc, that was ultimately acquired by EDS. Alan is a member of the Institute of Directors and has participated in a number of IT sector trade associations, representative bodies and policy making committees.



Rob Walker **Operations Director of Tessella plc**

Rob Walker is the Director responsible for Tessella's administration, finance, quality, training and IT support departments. He previously managed Tessella's Winchester branch for five years, achieving consistently high rates of profit growth and establishing a centre of excellence for high value fixed price projects. Rob is now primarily responsible for improving the efficiency of all aspects of Tessella's business and for facilitating the move to higher value projects.

Before joining Tessella in 2001, Rob spent twelve years with Scicon, SD-Scicon and EDS in the roles of project manager, consultant and business development manager, gaining considerable experience in the software, systems and support aspects of IT. Prior to Scicon, Rob served for 16 years with the Royal Air Force. He is a GD Aerosystems course graduate and holds a degree in Metallurgy from Birmingham University.



Judith Gell **Director of Tessella plc**

Judith has been involved with Tessella since its inception and has undertaken various administrative and support roles. She was responsible for developing the HR and payroll department, including setting up the Dutch and US offices. She has always been closely involved in the accounts functions and continues to use her in depth knowledge of Tessella systems working in the administration and finance team.

After obtaining a BSc in Physics from Birmingham University, Judith gained a PGCE in Science Education. She taught Physics for 8 years before joining Tessella.





Report of the Independent Auditor to the Members of Tessella plc

We have audited the financial statements of Tessella plc for the year ended 31 March 2010 which comprise the principal accounting policies, group profit and loss account, group balance sheet, company balance sheet, group cash flow statement, statement of total recognised gains and losses and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirement of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kathleen Fidgeon

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor

Chartered Accountants

OXFORD

Financial Statements

Principal Accounting Policies

Basis of accounting

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

The principal accounting policies of the group have remained unchanged from the previous year and are set out below.

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. 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 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.

Turnover 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 turnover reflects the accrual of the right to consideration by reference to the value of the work performed. Turnover 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. An annual impairment review is carried out on goodwill balances held. Such purchased goodwill is amortised over 8 years, previously 10 years, on a straight line basis.

In 2007 the trade and assets of the company's subsidiary Analyticon Limited were hived up into Tessella plc. This resulted in goodwill being recognised in Tessella plc which is being amortised over a remaining 7 years to ensure that the goodwill in the company and the group relating to Analyticon is written off over the same useful economic life.

Amortisation

Amortisation 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:

Goodwill	-	8 years
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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% - straight line basis
Leasehold improvements		10% - 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 contributions 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. 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.

Investments

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

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Share based payments

The group issues share options to its employees. In accordance with FRS 20, the payments are measured at fair value at date of grant, using an option pricing model. The fair value is then expensed on a straight line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest, updated at each balance sheet date.

Group profit and loss account

	Note	2010 £	2009 £
Group turnover	1	15,808,500	17,402,290
Cost of sales		(860,572)	(485,554)
Gross profit		14,947,928	16,916,736
Other operating charges	2	(14,030,559)	(16,045,689)
Operating profit	3	917,369	871,047
Interest receivable		8,044	70,215
Profit on ordinary activities before taxation		925,413	941,262
Tax on profit on ordinary activities	6	(7,422)	178,445
Profit for the financial year		917,991	1,119,707

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

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account.

The accompanying accounting policies and notes form part of these financial statements.

Group balance sheet

	Note	2010 £	2009 £
Fixed assets			
Intangible assets	9	82,023	109,363
Tangible assets	10	639,257	708,442
		<u>721,280</u>	<u>817,805</u>
Current assets			
Debtors	12	3,956,077	4,065,900
Cash at bank		1,086,105	2,957,051
		<u>5,042,182</u>	<u>7,022,951</u>
Creditors: amounts falling due within one year	13	<u>3,655,413</u>	<u>5,600,590</u>
Net current assets		<u>1,386,769</u>	<u>1,422,361</u>
Total assets less current liabilities		<u>2,108,049</u>	<u>2,240,166</u>
Provisions for liabilities			
Deferred taxation	15	7,764	13,870
		<u>2,100,285</u>	<u>2,226,296</u>
Capital and reserves			
Called-up equity share capital	19	60,002	60,002
Share premium account	20	207,991	207,991
Other reserves	20	48	48
Profit and loss account	20	1,832,244	1,958,255
Shareholders' funds	21	<u>2,100,285</u>	<u>2,226,296</u>

These financial statements were approved by the directors and authorised for issue on 27th July 2010, and are signed on their behalf by:



K J Gell
Director

Company Number: 1466429

The accompanying accounting policies and notes form part of these financial statements.

Company balance sheet

	Note	2010 £	2009 £
Fixed assets			
Intangible assets	9	347,000	433,750
Tangible assets	10	609,231	670,600
Investments	11	32,258	250,982
		<u>988,489</u>	<u>1,355,332</u>
Current assets			
Debtors	12	3,235,583	3,771,674
Cash at bank		794,854	2,558,808
		<u>4,030,437</u>	<u>6,330,482</u>
Creditors: amounts falling due within one year	13	<u>2,932,193</u>	<u>5,655,156</u>
Net current assets		<u>1,098,244</u>	<u>675,326</u>
Total assets less current liabilities		<u>2,086,733</u>	<u>2,030,658</u>
Provisions for liabilities			
Deferred taxation	15	7,764	13,870
		<u>2,078,969</u>	<u>2,016,788</u>
Capital and reserves			
Called-up equity share capital	19	60,002	60,002
Share premium account	20	207,991	207,991
Other reserves	20	48	48
Profit and loss account	20	1,810,928	1,748,747
Shareholders' funds		<u>2,078,969</u>	<u>2,016,788</u>

These financial statements were approved by the directors and authorised for issue on 27th July 2010, and are signed on their behalf by:



K J Gell
Director

Company Number: 1466429

The accompanying accounting policies and notes form part of these financial statements.

Group cash flow statement

	Note	2010 £	2009 £
Net cash (outflow)/inflow from operating activities	22	(676,590)	1,496,431
Returns on investments and servicing of finance			
Interest received		<u>8,044</u>	<u>70,215</u>
Net cash inflow from returns on investments and servicing of finance		8,044	70,215
Taxation		(51,238)	(123,189)
Capital expenditure			
Payments to acquire tangible fixed assets		(107,160)	(328,593)
Receipts from sale of fixed assets		<u>-</u>	<u>3,783</u>
Net cash outflow from capital expenditure		(107,160)	(324,810)
Equity dividends paid		(1,080,036)	(600,020)
(Decrease)/Increase in cash	22	<u>(1,906,980)</u>	<u>518,627</u>

The accompanying accounting policies and notes form part of these financial statements.

Other primary statements

Statement of total recognised gains and losses

	2010	2009
	£	£
Profit for the financial year attributable to the shareholders of the parent company	917,991	1,119,707
Currency translation differences on foreign currency net investments	36,034	94,303
Total gains and losses recognised for the year	<u>954,025</u>	<u>1,214,010</u>

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements

1 Turnover

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

An analysis of turnover is given below:

	2010 £	2009 £
United Kingdom	10,812,178	11,870,948
United States	2,702,727	2,915,247
Europe	2,293,595	2,606,095
Other	-	10,000
	<u>15,808,500</u>	<u>17,402,290</u>

2 Other operating charges

	2010 £	2009 £
Administrative expenses	<u>14,030,559</u>	<u>16,045,689</u>

3 Operating profit

Operating profit is stated after charging/(crediting):

	2010 £	2009 £
Amortisation	27,340	27,340
Depreciation of owned fixed assets	140,462	117,434
Loss on disposal of fixed assets	33,101	47,991
Operating lease costs:		
Land and buildings	421,751	384,360
Net loss/(profit) on foreign currency translation	27,814	(231,035)
Impairment of investment	218,724	-
Auditor's remuneration - audit of the financial statements	18,000	17,500
Auditor's remuneration - other fees	<u>21,846</u>	<u>15,995</u>

	2010 £	2009 £
Auditor's remuneration - audit of the financial statements	<u>18,000</u>	<u>17,500</u>
Auditor's remuneration - other fees:		
- Taxation services	16,770	8,700
- Other services	5,076	7,295
	<u>21,846</u>	<u>15,995</u>

4 Particulars of employees

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

	2010 No	2009 No
Number of billable staff	178	192
Number of administrative staff	36	40
	<u>214</u>	<u>232</u>

The aggregate payroll costs of the above were:

	2010 £	2009 £
Wages and salaries	10,471,991	11,856,358
Social security costs	1,097,236	1,288,997
Other pension costs	511,604	475,437
	<u>12,080,831</u>	<u>13,620,792</u>

5 Directors

Remuneration in respect of directors was as follows:

	2010 £	2009 £
Emoluments receivable	959,827	2,158,897
Value of company pension contributions to money purchase schemes	64,879	62,944
	<u>1,024,706</u>	<u>2,221,841</u>

Emoluments of highest paid director:

	2010 £	2009 £
Emoluments receivable	161,112	722,104
Value of company pension contributions to money purchase schemes	20,992	-
	<u>182,104</u>	<u>722,104</u>

5 Directors (continued)

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

	2010 No	2009 No
Money purchase schemes	<u>5</u>	<u>5</u>

None of the directors exercised any share options during the year.

6 Taxation on ordinary activities

(a) Analysis of charge in the year

	2010 £	2009 £
Current tax:		
UK Taxation In respect of the year:		
UK Corporation tax based on the results for the year at 28% (2009 - 28%)	16,934	74,167
Adjustment in respect of prior year	<u>(62,041)</u>	<u>(242,639)</u>
	(45,107)	(168,472)
Foreign tax		
Current tax on income for the year	38,909	4,212
Adjustment in respect of prior year	<u>19,726</u>	<u>-</u>
Total current tax	13,528	(164,260)
Deferred tax:		
Origination and reversal of timing differences	(12,767)	(14,185)
Adjustment in respect of prior year	<u>6,661</u>	<u>-</u>
Total deferred tax	(6,106)	(14,185)
Tax on profit on ordinary activities	<u>7,422</u>	<u>(178,445)</u>

6 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 28% (2009 - 28%).

	2010	2009
	£	£
Profit on ordinary activities before taxation	<u>925,413</u>	<u>941,262</u>
Profit on ordinary activities by rate of tax	194,337	263,553
Expenses not deductible for tax purposes	26,036	41,405
Depreciation for period in excess of capital allowances	401	11,372
Marginal relief	-	(9,684)
Adjustments to tax charge in respect of previous periods	(50,051)	(242,639)
Adjustment in respect of Overseas subsidiaries	(1,514)	4,212
Other timing differences	12,366	12,902
Deduction for R&D expenditure	<u>(168,047)</u>	<u>(245,381)</u>
Total current tax (note 6(a))	<u>13,528</u>	<u>(164,260)</u>

7 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £1,140,708 (2009 - £873,315).

8 Dividends

Dividends on shares classed as equity

	2010	2009
	£	£
Paid during the year:		
Equity dividends on ordinary shares	<u>1,080,036</u>	<u>600,020</u>

9 Intangible fixed assets

Group	Goodwill
	£
Cost	
At 1 April 2009 and 31 March 2010	<u>218,724</u>
Amortisation	
At 1 April 2009	109,361
Charge for the year	27,340
At 31 March 2010	<u>136,701</u>
Net book value	
At 31 March 2010	<u>82,023</u>
At 31 March 2009	<u>109,363</u>

Company	Goodwill £
Cost	
At 1 April 2009 and 31 March 2010	<u>607,250</u>
Amortisation	
At 1 April 2009	173,500
Charge for the year	<u>86,750</u>
At 31 March 2010	<u>260,250</u>
Net book value	
At 31 March 2010	347,000
At 31 March 2009	<u>433,750</u>

10 Tangible fixed assets

Group	Leasehold property £	Fixtures and fittings £	Equipment £	Total £
Cost				
At 1 April 2009	415,222	201,570	657,203	1,273,995
Effect of foreign exchange movements	–	(463)	(4,266)	(4,729)
Additions	–	7,934	99,226	107,160
Disposals	–	(51,384)	(60,033)	(111,417)
At 31 March 2010	<u>415,222</u>	<u>157,657</u>	<u>692,130</u>	<u>1,265,009</u>
Depreciation				
At 1 April 2009	83,292	139,623	342,638	565,553
Effect of foreign exchange movements	–	(327)	(1,885)	(2,212)
Charge for the year	19,427	18,835	102,200	140,462
On disposals	–	(47,610)	(30,441)	(78,051)
At 31 March 2010	<u>102,719</u>	<u>110,521</u>	<u>412,512</u>	<u>625,751</u>
Net book value				
At 31 March 2010	312,503	47,136	279,618	639,257
At 31 March 2009	<u>331,930</u>	<u>61,947</u>	<u>314,565</u>	<u>708,442</u>

10 Tangible fixed assets (continued)

Company	Leasehold property £	Fixtures and fittings £	Equipment £	Total £
Cost				
At 1 April 2009	415,222	199,962	589,969	1,205,153
Effect of foreign exchange movements	–	(142)	(742)	(884)
Additions	–	3,286	100,084	103,370
Disposals	–	(50,856)	(56,053)	(106,909)
At 31 March 2010	<u>415,222</u>	<u>152,250</u>	<u>633,258</u>	<u>1,200,730</u>
Depreciation				
At 1 April 2009	83,292	139,049	312,212	534,553
Effect of foreign exchange movements	–	(95)	(395)	(490)
Charge for the year	19,427	14,775	97,408	131,610
On disposals	–	(47,097)	(27,077)	(74,174)
At 31 March 2010	<u>102,719</u>	<u>106,632</u>	<u>382,148</u>	<u>591,499</u>
Net book value				
At 31 March 2010	<u>312,503</u>	<u>45,618</u>	<u>251,110</u>	<u>609,231</u>
At 31 March 2009	<u>331,930</u>	<u>60,913</u>	<u>277,757</u>	<u>670,600</u>

11 Investments

Company	Group companies £
Cost	
At 1 April 2009 and 31 March 2010	<u>250,982</u>
Impairment	
At 1 April 2009	–
Write off of investment	<u>(218,724)</u>
At 31 March 2010	<u>(218,724)</u>
Net book value	
At 31 March 2010	<u>32,258</u>
At 31 March 2009	<u>250,982</u>

At 31 March 2010 the company held 100% of the ordinary share capital of Analyticon Limited, a company incorporated in England and Wales. This company is dormant following the hive up of its trade and assets into Tessella plc during 2007. The original cost of £218,724 relating to the investment was written off in the year.

At 31 March 2010 the company held 100% of the ordinary share capital of Tessella Inc., a company incorporated in the United States whose principal activity is similar to that of the parent company. At 31 March 2010 Tessella Inc. had capital and reserves of £285,490 and made a profit of £74,361 for the year then ended.

12 Debtors

	The group		The company	
	2010	2009	2010	2009
	£	£	£	£
Trade debtors	2,700,981	3,168,380	2,184,149	2,814,336
Amounts owed by group undertakings	-	-	94,014	192,045
Corporation tax receivable	57,895	20,185	23,619	-
Unbilled receivables	670,983	385,107	526,746	326,635
Other debtors	93,913	155,468	75,262	129,217
Prepayments and accrued income	432,305	336,760	331,793	309,711
	<u>3,956,077</u>	<u>4,065,900</u>	<u>3,235,583</u>	<u>3,771,674</u>

13 Creditors: amounts falling due within one year

	The group		The company	
	2010	2009	2010	2009
	£	£	£	£
Payments received on account	793,513	899,645	521,199	656,504
Trade creditors	212,298	185,431	59,636	177,723
Amounts owed to group undertakings	-	-	526	572,861
Corporation tax	-	-	-	45,379
Other taxation and social security	832,136	1,140,944	821,383	1,130,685
Other creditors	239,970	271,460	245,132	253,502
Accruals and deferred income	1,577,496	3,103,110	1,284,317	2,818,502
	<u>3,655,413</u>	<u>5,600,590</u>	<u>2,932,193</u>	<u>5,655,156</u>

14 Pensions

The group operates defined contribution pension plans in the UK, NL and US.

15 Deferred taxation

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

	The group		The company	
	2010	2009	2010	2009
	£	£	£	£
Provision brought forward	13,870	28,055	13,870	28,055
Decrease in provision	(6,106)	(14,185)	(6,106)	(14,185)
Provision carried forward	<u>7,764</u>	<u>13,870</u>	<u>7,764</u>	<u>13,870</u>

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

Group	2010		2009	
	Provided	Unprovided	Provided	Unprovided
	£	£	£	£
Excess of taxation allowances over depreciation on fixed assets	<u>7,764</u>	<u>—</u>	<u>13,870</u>	<u>—</u>

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

Company	2010		2009	
	Provided	Unprovided	Provided	Unprovided
	£	£	£	£
Excess of taxation allowances over depreciation on fixed assets	<u>7,764</u>	<u>—</u>	<u>13,870</u>	<u>—</u>

16 Commitments under operating leases

At 31 March 2010 the group had annual commitments under non-cancellable operating leases as set out below.

The group	Land and buildings	
	2010	2009
	£	£
Operating leases which expire:		
Within 1 year	108,068	97,469
Within 2 to 5 years	295,516	349,748
	<u>403,584</u>	<u>447,217</u>

16 Commitments under operating leases (continued)

At 31 March 2010 the company had annual commitments under non-cancellable operating leases as set out below.

The company	Land and buildings	
	2010	2009
	£	£
Operating leases which expire:		
Within 1 year	30,740	18,788
Within 2 to 5 years	295,516	349,748
	<u>326,256</u>	<u>368,536</u>

17 Contingencies

The group and company had no contingent liabilities at 31 March 2010 or 31 March 2009.

18 Related party transactions

The company previously rented two properties owned by the Tessella Executive Retirement and Death Benefit Scheme (the "scheme"). Two of the trustees, K J Gell and J A Gell, are also directors of the company. Rent charged in the year ended 31 March 2010 amounted to £nil (2009: £57,250). An amount of £2,761 was owed to the company from the scheme at 31 March 2010 (2009: £nil).

The group and company are ultimately controlled by K J Gell by virtue of his majority shareholding in the parent company.

19 Share capital

Authorised share capital:

	2010	2009
	£	£
250,000 Ordinary shares of £1 each	250,000	250,000
10,000 A Ordinary shares of £0.001 each	10	10
	<u>250,010</u>	<u>250,010</u>

Allotted, called up and fully paid:

	2010		2009	
	No	£	No	£
Ordinary shares of £1 each	60,002	60,002	60,002	60,002
A Ordinary shares of £0.001 each	112	-	112	-
	<u>60,114</u>	<u>60,002</u>	<u>60,114</u>	<u>60,002</u>

19 Share capital (continued)

Share options

	Number of shares	Exercise price per share £
Exercisable once certain performance criteria are met but before 31 August 2017	824	0.001

There has been no charge recognised in the current year regarding these share options as it has been deemed insignificant to the financial statements.

20 Reserves

Group	Share premium account £	Other reserve £	Profit and loss account £
At 1 April 2009	207,991	48	1,958,255
Profit for the year	–	–	917,991
Equity dividends	–	–	(1,080,036)
Foreign currency translation differences	–	–	36,034
At 31 March 2010	<u>207,991</u>	<u>48</u>	<u>1,832,244</u>
	£	£	£
Company	Share premium account £	Other reserve £	Profit and loss account £
At 1 April 2009	207,991	48	1,748,747
Profit for the year	–	–	1,140,708
Equity dividends	–	–	(1,080,036)
Foreign currency translation differences	–	–	1,509
At 31 March 2010	<u>207,991</u>	<u>48</u>	<u>1,810,928</u>

21 Reconciliation of movements in shareholders' funds

	2010 £	2009 £
Profit for the financial year	917,991	1,119,707
Equity dividends	(1,080,036)	(600,020)
Foreign currency translation differences	36,034	94,303
Net addition to shareholders' funds	<u>(126,011)</u>	613,990
Opening shareholders' funds	2,226,296	1,612,306
Closing shareholders' funds	<u>2,100,285</u>	<u>2,226,296</u>

22 Notes to the statement of cash flows

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

	2010	2009
	£	£
Operating profit	917,369	871,047
Amortisation	27,340	27,340
Depreciation	140,462	117,434
Loss on disposal of fixed assets	33,101	47,991
Decrease/(Increase) in debtors	147,533	(467,703)
(Decrease)/Increase in creditors	<u>(1,942,395)</u>	<u>900,322</u>
Net cash (outflow)/inflow from operating activities	<u>(676,590)</u>	<u>1,496,431</u>

Reconciliation of net cash flow to movement in net funds

	2010	2009
	£	£
(Decrease)/Increase in cash in the period	(1,906,980)	518,627
Translation differences	<u>36,034</u>	<u>94,303</u>
Movement in net funds in the period	<u>(1,870,946)</u>	<u>612,930</u>
Net funds at 1 April 2009	<u>2,957,051</u>	<u>2,344,121</u>
Net funds at 31 March 2010	<u>1,086,105</u>	<u>2,957,051</u>

Analysis of changes in net funds

	At 1 Apr 2009	Cash flows	Exchange movement	At 31 Mar 2010
	£	£	£	£
Net cash:				
Cash in hand and at bank	<u>2,957,051</u>	<u>(1,906,980)</u>	<u>36,034</u>	<u>1,086,105</u>
Net funds	<u>2,957,051</u>	<u>(1,906,980)</u>	<u>36,034</u>	<u>1,086,105</u>

23 Capital commitments

There were no capital commitments at 31 March 2010 or 31 March 2009.

Company Information

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1466429

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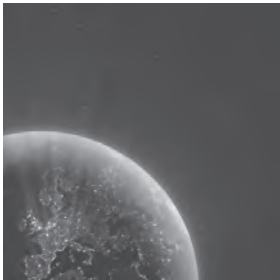
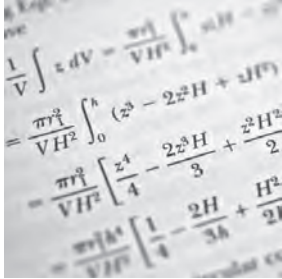
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