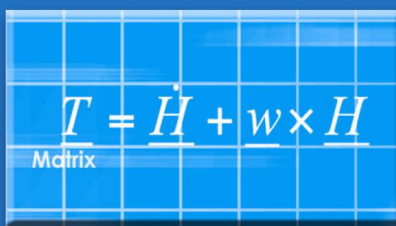


Tessella

Annual Report

Year ended 31 March 2008



Tessella – Complex problems. Solved.

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Five year review

Business review

Tessella is a technology and consulting company operating in high-tech and R&D-based sectors. We help organizations develop answers to complex problems by combining scientific, engineering and software capabilities with strong delivery expertise. Tessella staff are scientists first, and technologists second, so projects are approached with an appreciation of the science involved before developing a technical solution. In this way, we add value to our clients' businesses and take pride in ensuring that our solutions are used enthusiastically.

The Group's services include:

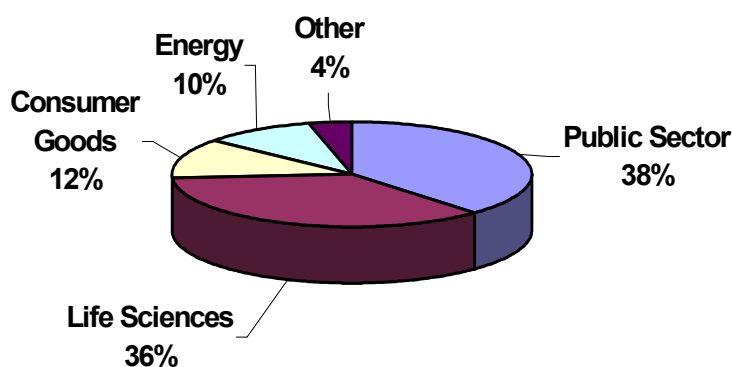
- Consultancy
- Analysis & Design
- Modelling & Simulation
- Algorithm Development
- Software Development
- Systems Integration
- Support and Maintenance

We provide a complete end-to-end service from initial consultancy to identify opportunities, or the root causes of difficulties, through to the development, deployment and ongoing support of the solution. This may be a tailor-made software system, an off-the-shelf product or an improved way of working. We are also happy to provide our expertise to whatever part of your project is most appropriate, working with your own staff or 3rd party suppliers.

During 2007/08, business development was focussed on four of our key market sectors:

- Life Sciences (pharmaceuticals, biotech, medical and agribusiness)
- Energy (oil, gas and nuclear)
- Public Sector (including government, defence and space)
- Consumer Industries

The approximate distribution of revenues across these sectors during the year was as follows:



Life Sciences

During 2007/08 Tessella worked with ten major pharmaceutical companies, supporting drug discovery and development activities ranging from Protein Structure Analysis and High Throughput Screening through to Adaptive Clinical Trials and Drug Supply Forecasting.

We have retained solid business with long-established clients including AstraZeneca, Novartis and Pfizer, and also developed substantial new business with last year's new life sciences clients including Wyeth Pharmaceutical R&D. We continued to strengthen our pipeline in 2007/08 by winning contracts with further new key clients including Hoffmann-La Roche.

Lab Automation and Workflows

At AstraZeneca, we developed the CrysIS workflow system, which integrates and automates a sophisticated X-ray crystallography process to analyze the structure of protein targets and drug interactions.

At Pfizer and **UCB** we developed custom systems for the ordering and registration of chemical compounds for the drug discovery process. The purpose of these systems is not only to streamline a complex process, thus reducing staff time and the likelihood of errors, but also to capture expertise across their respective organizations, providing a knowledge-base for future exploitation.

Adaptive Clinical Trials

Our work on developing support and simulation tools for **Adaptive Clinical Trials** (ACT) progressed significantly during 2007. In addition to our extensive work with Wyeth, Tessella won new contracts with two other major pharmaceutical companies wanting to develop Adaptive Trials. We are working on a generic framework for simulating and comparing Adaptive Clinical Trial designs, which has been demonstrated to selected organizations and has been received with enthusiasm. This and other work will form the basis of significant announcements regarding Tessella's ACT business in 2008.

Tessella strengthened its global position as a leading provider of Adaptive Clinical Trials tools and services. During the year we co-hosted a series of master-class webinars with our partners **Medidata** and **United BioSource Corporation**. We have also deepened our close relationship with **Berry Consultants**, the global leaders in Bayesian adaptive designs.

Innovation Award for HDMS

At the London NHS Innovator Awards 2007, the **Haemophilia Home Delivery Monitoring System** (HDMS) system was voted ICT and Software category winner. HDMS is the result of a close collaboration between **Guy's and St Thomas' NHS Foundation Trust**, the home delivery companies responsible for distributing the medication, Tessella and O2. The system has been working for 18 months and has attracted considerable interest from other Haemophilia centres.

Energy

Risk Modelling

Tessella deepened its relationship with major oil company, **BP**, during 2007. We worked with BP's Major Accident Risk (MAR) team, which specializes in assessing and modelling the major accident hazards associated with BP's operations. Tessella worked with the MAR team to overcome a number of drawbacks suffered by their models of offshore facilities, such as oil rigs.

The new **offshore risk-modelling package**, christened OMAR, gives BP another tool to minimize risks and keep its staff, the public and the environment safe. OMAR lets the risk modeller build a 3D model of the facility with the ability to zoom and fly through it. This provides a much better view of how the elements in an offshore facility hang together and how they contribute to the overall risk, for example how people move to areas of safety if escape routes are impaired.

Tessella not only developed a sophisticated user interface, but also distilled more complex models of fire and explosion propagation into a single package. For a structure as complicated as an oil rig, the number of possibilities can be truly enormous. Despite the complexity of the software, Tessella delivered OMAR to BP at the start of 2008.

Throughout 2007, **Shell** continued to be a major client of Tessella's, working in the area of **Risk and Hazard Modelling**. Tessella staff have also provided support for **Statistics** and **Benchmarking** applications in the UK and the Netherlands. We were successful in winning a 3-year global call-off contract with Shell during the year.

Nuclear Fusion Research

Tessella was delighted to have won our first contract with **ITER** this year. ITER is a global research project, designed to demonstrate the scientific and technological feasibility of fusion as a source of plentiful, environmentally friendly energy.

Following on from today's largest fusion experiments worldwide, ITER aims to provide the know-how to build subsequently the first electricity generating power station based on magnetic confinement of high temperature plasma – in other words, to capture and use the power of the Sun on Earth.

During 2007-2008, Tessella worked on an ITER contract to help review the design of its **Control, Data Acquisition and Communication (CODAC)** system. We also provided a technical expert to work on site at ITER for the early part of 2008 on the development of ITER's document management.

Public Sector

Digital Archiving & Preservation

Tessella consolidated its position as the world's leading developer of **Digital Archiving and Preservation systems**, by winning two new contracts to develop digital archive systems for the National Archives in Switzerland and in The Netherlands.

Separate systems are being developed for the **Schweizerisches Bundesarchiv** and the **Nationaal Archief** of The Netherlands. Both systems are based on the **Safety Deposit Box (SDB)** technology developed by Tessella for The National Archives of the UK, but with custom developments to integrate the back-end archive with the feeder systems, which generate the digital material which is to be preserved.

The SDB platform is also being used at the **British Library**, where Tessella has succeeded in winning a framework contract to provide software development services.

Tessella also delivered a major enhancement to **The National Archives** of the UK of their prize winning **Digital Archiving System**.

Tessella continues to support **Lockheed Martin** in its development of the ERA digital archiving system for the **US National Archives and Records Administration (NARA)**.

Science Research

Tessella worked on a number of projects at Oxfordshire's **Rutherford Appleton Laboratory (RAL)** during 2007, including the **ISIS** project.

The **ISIS** facility at RAL is a major neutron and muon source used by academic institutions around the world. In a multi-million pound upgrade to the system, they are building a new target station (TS2), which will require extensive software development to help with data acquisition, physics post processing, data storage, visualization and data management. Tessella won a contract to manage this software development. The scientific pedigree of our staff and the 20+ years experience of large-scale data management we have gained on the JET fusion project were key factors in selecting Tessella for this project.

JANET (UK) is the organization responsible for operating JANET, the UK's education and research network. During 2007 Tessella developed a new measurement and monitoring system, called **Netsight**, to provide visibility of network performance to end-users and network managers. The new Netsight system was required to meet the growing needs and expectations of its user community and to incorporate recent improvements in monitoring technology. JANET has a global reputation for excellence within the education and research communities, with a user base who demand a very high-quality service. Tessella is very pleased that our innovative software will contribute to the continuing success of this service. The new Netsight system was completed on time and was introduced into service early in 2008.

Defence

Part of Tessella's strategy is to increase our business in the defence sector, so during 2007 we appointed a salesperson dedicated to this sector. We won new contracts from our core defence clients **BAE Systems** and the **Defence Ordnance Safety Group**. In addition, we won work from new clients **Thales**, the **Defence Science & Technology Laboratory (Dstl)** and **Meggitt Avionics**.

Although project details are confidential, much of our work involves mathematical modelling, simulation, risk assessment and algorithm development.

Space

We continue to contribute our specialist skills to the design of a number of European space missions. **Attitude and Orbit Control Systems (AOCS)** and **Entry, Descent and Landing Systems (EDLS)** are two highly demanding areas of work that utilize Tessella's mathematical modelling and algorithm design skills.

Tessella is part of the **Deimos Space S.L** team working on the EDLS options for ExoMars, the European mission to land a scientific rover on Mars, planned for launch in 2013. New clients gained during the year include the **Swedish Space Corporation** and we have extended our relationships with **Astrium** and **Thales**.

Consumer Industries

2007 saw a milestone reached in the MiLife concept, developed by **Unilever** with software from Tessella, with the launch of **MiLife Coaching Ltd**. MiLife is a unique system, which allows consumers to analyze the nutritional and physical sides of their daily life with the aim of improving fitness and countering obesity. The system comprises a watch-like physical activity monitor, the MiBand, Smart Scales and the MiLife website which integrates the collected data and provides online coaching support. Using this personal data MiLife can deliver the best recommendations and motivation suited to each individual. Feedback is given on your progress and, if necessary, your plan is adapted and new tools, activities or nutritional advice are suggested to help you achieve your goals. Such continual monitoring and feedback makes you personally aware of your current eating habits and how you can break the bad ones.

ICI Paints has some of the world's top paint and decorative product brands. It aims to inspire consumers to transform their surroundings at home and work with performance and colour. With help from Tessella, ICI Paints' UK and International Marketing teams develop and support a range of software applications to support its sales. These applications include the **MousePainter** range – a 'virtual paintbox' that lets you paint predefined rooms, or upload your own pictures and paint them with ICI Paints colours. MousePainter is integrated with ICI Paints' proprietary **Colour Scheming** tools (also supported by Tessella), helping their customers choose 'colours that go', thus providing effective colour schemes for your rooms. These applications are highly complex, requiring an understanding of colour science, image segmentation algorithms, user-interface design and internationalization techniques. By combining Tessella's skills with its own, ICI Paints runs a highly effective suite of web marketing tools, engaging their customers and giving significant competitive advantage.

Customer Support Team

Many organizations are finding that by outsourcing the support of their business-critical IT systems and applications, they can benefit from an improved level of service, better response times and greater value for money. Outsourcing also allows them to re-deploy their resources onto new projects. Tessella has built a strong track record of providing reliable and responsive support for business-critical applications for a number of high-profile clients. Our strength comes from the high-calibre staff that we use for support work, the flexibility of our support offerings, and in particular the mix of bug fixing and enhancement work that we offer.

Tessella's centralized Customer Support Team provides a range of support options and service levels to meet the demanding needs of our increasing client base. The team delivers support to systems and applications developed by Tessella, by our clients, and by third parties.

For Tessella-written software, the team takes responsibility for support and maintenance on completion of the initial warranty, whereas for other systems and applications the support commences as required by the client (following an initial familiarization and training phase). The team also offers maintenance and support to Tessella's expanding list of clients using our software products including our:

- Digital Archive Safety Deposit Box
- Local Authority Waste Data Management System

Corporate and social responsibility report

Tessella sees Corporate and Social Responsibility as far more than a politically-correct-box to tick. Whilst the company exists to make a profit and to expand our operations, by the nature of the innovative work we do, we are quietly confident of the positive contribution we make.

Adding value through innovation

Tessella uses its unique blend of scientific, engineering and IT skills to solve the most complex of technical and business problems in a highly cost-effective way. We have a proven 28-year history of excellence, adding value to demanding public sector and commercial R&D based clients. 'Innovation with dependability' underpins everything we do.

From innovative projects to deliver better services to haemophiliacs; through developments to support safer drugs, minimize risk at oil depots, or explore Mars; to digital archiving systems to protect national assets, we are proud of the work that we deliver and the clients that we support. Our combined efforts make the world a better place to live in.

Engaging employees

We value our people and are well aware that they are our greatest asset. Tessella's success has been built on recruiting and retaining the best possible technical and non-technical staff. We aim to be an employer of choice in the core industry sectors in which we operate. Via our Investors in People programme, all our staff are encouraged to develop to their full potential. Our technical staff receive 20 days training per year, three times the norm for our industry. We know that investing in our staff reaps rewards for our company and for our clients and for our staff.

We recognize that within a knowledge-based business such as our own, and with staff scattered throughout our UK, Netherlands and US offices, not to mention at numerous client sites, good employee communications are important. We run several Special Interest Groups via our company Intranet, and hold monthly evening meetings where staff can hear about the plans for the company and can share experiences.

We hold annual appraisals where achievements are acknowledged, issues are discussed, and career development is mapped out. Our managers are accessible to staff at all levels in their Branches and on their projects, and staff are encouraged to contribute ideas for the development of their project and the business.

The health and safety of our staff, and our clients, is important to us. To ensure that our offices are safe and enjoyable 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 our staff attend a half-day first aid course.

We are an equal opportunities employer with a significantly lower churn rate than might be expected for our industry sector.

Respecting our clients

We believe that each project or development on which we work must meet our client's real business need. This is achieved by careful discussion and documentation of the client's requirement before work commences, so that we have a joint and clear definition of the task at the outset. Clients' evolving needs are met by close liaison throughout the project life cycle. We also assume that the project must be completed to the client's time scale. This is related to the requirement and budget, and is agreed at the outset of the project.

Tessella's Directors believe that the company's solutions and services should bring value to our clients in a socially responsible and ethical way.

Respecting our partners and suppliers

We strive to build ethical relationships with our business partners, to mutually support each other's businesses. Each year, a number of new contracts come to our attention because of our close working relationships with key partners. We pay our bills promptly and treat our suppliers in an ethical way. We value their contribution to our business.



Protecting our environment

Protecting the environment is now the responsibility of all, and few organizations or individuals remain unconvinced about the dangers of not acting. But not everyone has the opportunity to make a real difference.

By the nature of our operations, Tessella could be thought of as having a minimal impact on the environment. However that is not true. Our involvement in several leading projects (including the UK National Flow Forecasting System, and the Waste Data Management Systems at West Sussex and Cambridgeshire County Councils) means that we can proudly say that our business makes a positive impact on the environment.



Over a number of years we have supported Shell Global Solutions HSE Consultancy who specialize in the management of loss prevention and accident hazards at large chemical and industrial sites.

We aim to minimize the amount of electricity that we consume and for many years have operated a policy of IT equipment being switched off every night at the socket, ie not being left on stand-by. We are proud to have been ahead of the game on this issue.

For many years we have made extensive use of electronic records management systems, delivering the twin benefits of reducing paper usage and enhancing communications between staff at disparate offices. By making use of up-to-date telecoms methods and by locating branches local to our clients, we aim to minimize our carbon footprint.

Supporting our local communities

When we have the opportunity, both Tessella and staff like to get involved with worthy causes. In March 2008, it was the turn of the Tessella Netherlands team, who spent a morning helping the Den Haag Stichting Voedselbank prepare parcels of food and household supplies for local less-well-off individuals and families. De Voedselbank works to reduce the hidden poverty in the Netherlands, and is run completely by volunteers. The goods that we packed had been provided by factories and retailers, and included Brussels sprouts, leeks and 400 Kg of deep frozen chicken nuggets. Our parcels were sent off to distribution centres around the country, for collection by those registered with Stichting Voedselbank. All in all, quite a change from a normal working day, and the team went home confident that they had contributed something useful to the community.

Also in March 2008, staff from Tessella's Warrington office spent a day in the Cheshire countryside working for the UK National Trust, via their Employee Volunteering Programme, restoring Victorian culverts, constructing and painting tree guards, and planting trees. The National Trust Hare Hill Estate has only two full time grounds staff, and the Warden relies heavily on volunteers to maintain the gardens. All in all, a Tessella team-building day with a difference. The Burton office undertook similar volunteer work.

Responsible independence

We are vendor independent and always propose the solution that we believe will benefit our client the most. However we do this from an ethical standpoint and would never knowingly contribute to a development which would be detrimental to the countries and the communities in which we operate.

Directors' biographies

- 1 Jon Tilbury
- 2 Rob Walker
- 3 Alan Gaby
- 4 Peter Townsend
- 5 Grant Stephen
- 6 Kevin Gell



1 2 3 4 5 6

Kevin Gell, 59

Managing Director of Tessella Support Services plc

Kevin Gell founded Tessella in 1980. Initially it was a one-man operation specializing in systems support for IBM mainframes. He hired his first employee after six months and has led the business through 28 years of profitable growth, moving its emphasis from systems support to scientific and technical applications development during the first five years of its life.

Prior to founding Tessella, Kevin obtained a Physics degree from Birmingham University and worked for IBM for ten years, initially as an Analyst Programmer at their Havant manufacturing plant and then as a systems engineer in their Research & Education Branch supporting customers such as UKAEA, Research Councils, Universities and the UK Ministry of Defence. While at IBM he qualified with the Chartered Institute of Management Accountants.

Peter Townsend, 52

Commercial Director of Tessella Support Services 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 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, 37

CEO of Tessella Inc; Director of Tessella Support Services 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 Support Services plc in 2006. He has built up Tessella's organization in the United States since late 2001, growing the customer base across a range of sectors, attracting top-flight staff and spreading the word about Tessella's specialized 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, 45

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

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

Alan Gaby, 42

Director of Tessella Support Services plc

Alan Gaby is the Director responsible for Tessella's Burton, Cambridge, 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 a 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, 58

Director of Tessella Support Services 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.

Report of the directors

Summary

Tessella has had another successful year of double-digit revenue growth, whilst maintaining good profitability and cash generation. In parallel, Tessella has set out a clear strategy for continued and sustainable growth and has embarked upon significant investments and initiated a number of change programmes to deliver against that strategy.

Review of 2007- 2008

During the year Tessella has increased its revenues from pre-existing accounts, as well as adding to its long and enviable list of Blue-Chip and Public Sector clients. Tessella operates across three geographic regions, with established offices in UK, U.S. and the Netherlands. During the period each of these regions positively contributed to the Group's overall financial performance. As we become more established within our overseas operations, we seek to benefit from increased local staff recruitment and management, leading to a greater adoption of "local" style and culture, reflecting the needs and desires of our clients. Yet Tessella has also been ideally placed to support our Global Accounts, such as Shell, BP, Unilever, AstraZeneca, Pfizer etc. with the benefit of a fully joined-up and co-ordinated approach to technology implementation and the related business implications. This enables our clients to maximize re-use of proven solutions, resulting in reduced programme time, cost and risk.

Tessella has continued to operate wherever complex challenges exist, providing innovation and pragmatism, to deliver real benefits in areas that affect the quality of life for society.

By way of example and amongst many other projects completed during the period, Tessella:

- Developed systems to make future drug trials quicker and more effective
- Provided research support into fusion power, a potential source of clean energy for the future
- Delivered health and safety applications to create safer working environments in the Oil, Gas and Defence sectors
- Developed tools and techniques for forensic science organizations, in order to improve detection rates in serious crimes

As well as being proud of our involvement in such socially constructive programmes as exemplified above, Tessella has been resolutely focussed on its primary goal of delivering ever-increasing value to its clients. Whether our clients have sought to use technology to create competitive advantage, improve their own client's experiences or simply improve efficiency and "do more for less", we have applied ourselves to solve some of their most complex challenges. It has been most satisfying to receive a steady stream of client commendations throughout the year and this itself directly reflects the quality and dedication of our staff.

In addition to extending a number of long-term assignments, Tessella has been successful in securing a number of larger fixed price projects such as a near £1m programme to deliver a state of the art control room Management Information System for a London transport infrastructure programme and a near 1m Euro project for the Dutch National Archives. Tessella has also supported both Public Sector and Commercial clients in a broad range of consulting assignments, providing services such as conducting IS strategy reviews, developing technology roadmaps, implementing decision support analyses and creating agile management methods. Also, as part of our initiative to provide increased "end to end" services, a number of clients have now chosen Tessella to provide a one stop shop support environment to maintain and enhance a combination of client developed, Tessella developed and third party developed scientific software applications.

As Tessella entered the year, the Board conducted a strategic review and formulated a clear and concise strategy for the coming years. The focus of the strategy being, sustainable and profitable growth. Initiatives and investments are being taken forward to address the imperatives that underpin the strategy, namely:

- Focusing on core vertical sectors
- Developing ever-closer relationships with key clients
- Organizing to support our global clients better
- Enhancing the portfolio of services and offering 'end to end' services
- Expanding and developing the Consulting led services
- Protecting and building on the internal culture
- Increasing the profile and awareness of Tessella through branding and marketing
- Exploiting retained Intellectual Property

Many of the initiatives and investments that commenced during the year have already started to deliver results. For example, our increased investment and focus on two particular offerings (Adaptive Clinical Trials and Digital Archiving and Preservation) has led to Tessella being recognized as a leading light in these areas, which

in turn has increased Tessella's profile, generated sales leads and contributed to the growth in revenue. We will seek to replicate this success with other emerging service offerings.

In support of the revenue growth, Tessella has managed to attract (and retain!) a record number of new starters, without diluting Tessella's exceptionally demanding standards. Tessella continues to benefit from the majority of its revenue generating staff possessing PhDs.

Looking forward

Tessella has a strong and motivated management team, with common aims, clear objectives and targets designed to stretch and challenge. We enter the year with a record order book and improved sales pipeline. Our sales and marketing capability and capacity is being increased across the Group and investment is also being made in providing additional "band width" within our central support teams to cope with the projected growth. We are in the process of agreeing terms that will enable the Head Office in Abingdon to re-locate to more suitable accommodation with space for expansion.

Furthermore, with a diverse client base, high levels of repeat business and a size and structure that can readily and rapidly adapt, Tessella remains well positioned to provide its technology and consulting services to its clients; particularly in the niche areas where scientific and technological complexity combine, even in times where the general economic outlook is less certain. As well as continuing to drive organic growth, and having now successfully completed the integration of Analyticon, Tessella will also continue to search for further acquisition opportunities that support the strategic objectives.

In concluding, I should like to acknowledge that none of the company's success would be possible without the tremendous commitment and contribution of our staff, and on behalf of the Board I thank them all.

Results and Dividends

Group revenue for the year was up 12% to £14.4M (2006: £12.8M), however operating profit was down 9% to £1M (2006: £1.1M). The reduction in profit was largely due to increased investment in sales and marketing and other support functions, the benefits of which will be realized from 2008 onwards.

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

Total Tax Contribution 2007 - 08

Taxes paid by the company	UKHolland		USA
	£K	€K	\$K
Corporation Tax	248	0	0
Business Rates	44	0	0
Employers' Social Security	987	33	129
Total	<u>1,279</u>	<u>33</u>	<u>129</u>
Taxes collected by the company			
Employee – PAYE / Withholding Taxes	2,076	143	542
Employee - Social Security	583	23	57
VAT	1,664	123	N/A
	<u>4,323</u>	<u>289</u>	<u>599</u>

The directors have recommended the following dividends:

	2008	2007
	£	£
Final dividend proposed of £5 per ordinary shares (2007: £7.5)	300,010	450,015
Interim dividend paid of £5 per ordinary shares (2007: £5)	300,010	292,890
	600,020	742,905

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 £0.2M, which is rarely utilized. 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 position will be reviewed and action will be taken to hedge against currency risk where appropriate.

Directors

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

Mr K J Gell BSc ACMA CEng MBCS
Mrs J A Gell BSc PGCE
Dr P J Townsend ARCS BSc DPhil (Oxon)
Mr J Tilbury BA
Mr R Walker BSc
Mr A Gaby
Mr G Stephen Beng, MBA
Mrs B Gell
Mrs J M Prosser

Both Mrs B Gell and Mrs J M Prosser resigned their position as Directors on the 31st March 2008.

Directors' responsibilities

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

Company law in the United Kingdom 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 company and the group and of the profit or loss of the group for that year.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies, as described on page 15, and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures 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 proper accounting records which 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 1985. 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 the directors are aware:

- There is no relevant audit information of which the group'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.

Auditors

Grant Thornton 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

Xx August 2008

Company information

Company registration number	1466429
Registered office	3 Vineyard Chambers Abingdon Oxfordshire OX14 3PX UK
Directors	Mr K J Gell Mr A Gaby Mr G Stephen Mr J Tilbury Dr P Townsend Mr R Walker Mrs J A Gell
Secretary	Mrs S A Elliott
Bankers	National Westminster Bank plc 11 Market Place Abingdon Oxfordshire OX14 3HH UK
Solicitors	Darbys Solicitors 52 New Inn Hall Street Oxford OX1 2QD UK
Auditors	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1 Westminster Way Oxford OX2 0PZ UK

Contacting Tessella

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