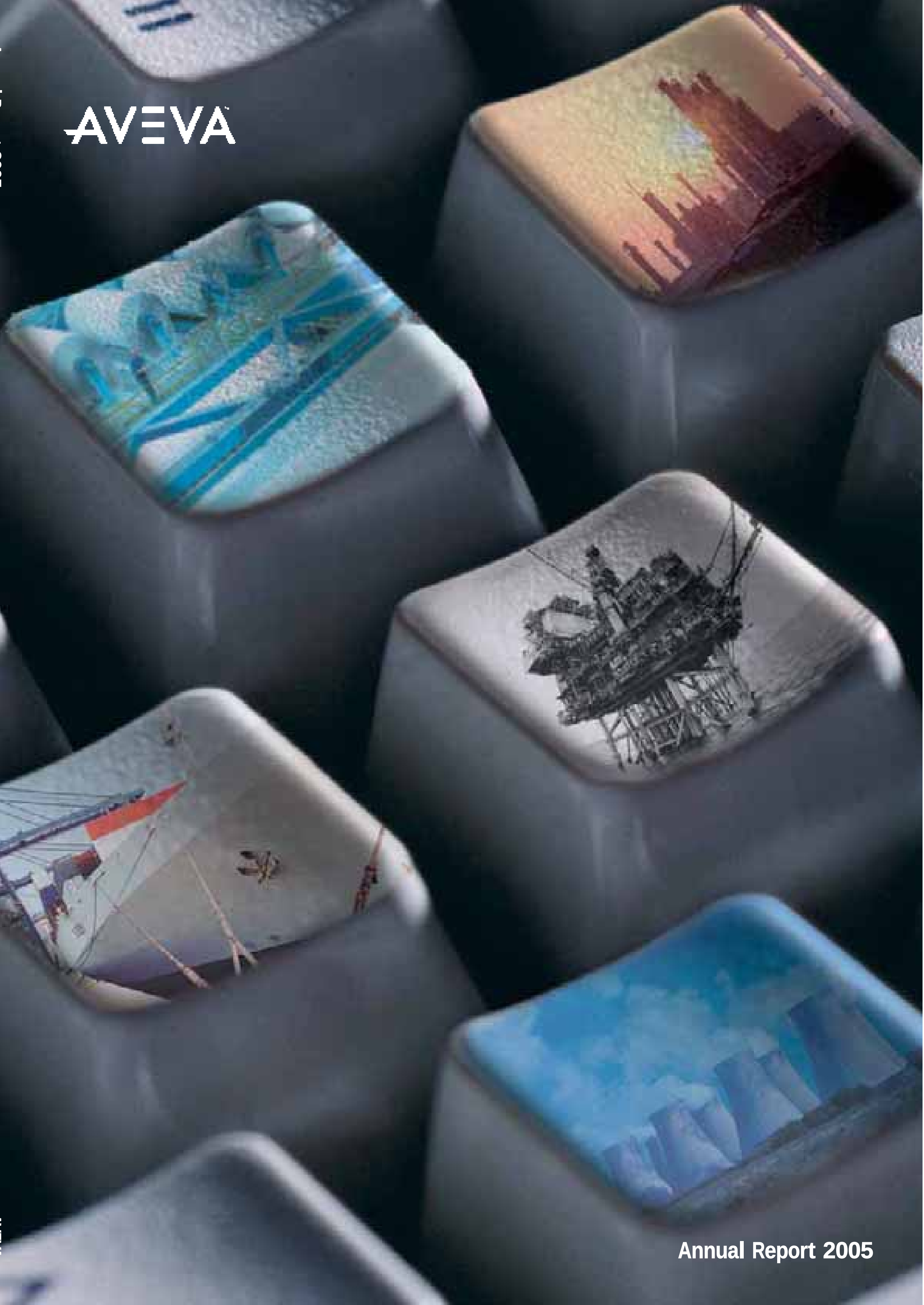


AVEVA

Annual Report 2005

CONTENTS

HIGHLIGHTS

- Record results with increased revenue, profits before goodwill and cash
- Revenues up 51% to £57.5 million (2004 - £38.1 million), with recurring revenues up 42% to £32.6 million
- Profit before tax, exceptional restructuring costs and goodwill £10.7 million (2004 - £6.7 million) an increase of 60%
- Adjusted earnings per share of 36.7p (2004 - 26.2p)
- Basic earnings per share of 13.4p (2004 - 22.4p)
- Strong cash generation with net cash at year-end at £11.2m (2004 - £8.7m)
- Increased final dividend of 4.3p proposed, bringing the total dividend to 6.1p (2004 - 5.8p)
- Excellent growth in target sectors of oil and gas, power and marine, with notable success in the Asia Pacific region
- Successful integration of marine business, Tribon. Performance and synergy benefits ahead of expectations, with full year cost savings at £3.3 million
- Exciting opportunity for acceleration of VNET business with additional investment of £2m in the next twelve months and the strategic acquisition of Realitywave, Inc. for £3.2m

£57.5m

TURNOVER (£m)

2005	57.5
2004	38.1
2003	36.0
2002	31.8
2001	28.1

£10.7m

PROFIT BEFORE TAX, AMORTISATION OF INTANGIBLE ASSETS AND EXCEPTIONAL ITEMS (£m)

2005	10.7
2004	6.7
2003	6.2
2002	5.6
2001	5.8

36.7p

ADJUSTED EARNINGS PER SHARE (pence)

2005	36.7
2004	26.2
2003	25.1
2002	23.6
2001	24.4

6.1p

TOTAL DIVIDENDS PER SHARE (pence)

2005	6.1
2004	5.8
2003	5.6
2002	5.4
2001	5.4

GROUP OVERVIEW

TURNOVER

£57.5m

GROSS PROFIT

£38.5m

AVEVA Group plc is one of the world's foremost and fastest growing lifecycle engineering IT solutions and services providers to the oil and gas, power, marine, paper and pulp, chemical and pharmaceutical industries. Listed on the London Stock Exchange (LSE: AVV) since 1996, the Group reported adjusted pre tax profits for the year ending 31st March 2005 of GBP £10.7 million on a turnover of £57.5 million, a growth in profits of 60% and growth in turnover of 51%. During the year the company have successfully integrated the world's leading shipbuilding design solution, Tribon Solutions AB. The addition of Tribon adds considerable domain expertise, technology and customer base to AVEVA as well as enhancing AVEVA's global presence with additional offices in China, Russia and Sweden. AVEVA is now the world number one for commercial ship design solutions. AVEVA's core technology has been further strengthened with the acquisition of Realtywave, to secure and enhance the new VNET product, which will benefit from continued investment for strong future growth.

MARINE

Prior to the acquisition of Tribon Solutions, AVEVA's PDMS solution was a platform of choice for the outfitting of commercial and process vessels. Every day, a ship of over 1,500 tonnes is launched that was designed using AVEVA's technology. The heyday of mammoth, static oil platforms is all but over and the world is looking to Floating Production, Storage and Offloading (FPSO) vessels and other floating facilities for the future of oil production. There is an estimated current requirement for 110 of these huge, mobile plants. They are a fusion of shipbuilding and plant technology, requiring an integration of both technologies. No other solution provider has the experience, history or proven technology to match this need.

OIL AND GAS

Oil and gas remains one of the most significant global industries in the world today, feeding the power industry, polymers, chemicals, transportation, pharmaceuticals and much more. In fact, it is hard to name a part of modern life that isn't touched in some way by the extraction and processing of oil and gas. AVEVA was the first company to introduce 3D modelling to the offshore industry and has since become synonymous with it. In the UK sector of the North Sea alone, 5.2 million barrels per day are produced from topsides worth nearly £20 billion designed using AVEVA's technology. The engineering IT revolution began in the offshore industry and it began with AVEVA.

GEOGRAPHIC OPERATIONS

AVEVA have continued to gain market share in our target sectors and across geographies, particularly in the Asia Pacific region.
Breakdown of Group revenue:

ASIA PACIFIC	EMEA	AMERICAS
£20.3m	£27.9m	£9.3m
35%	49%	16%

ENGINEERING IS HERE

In 1967, before the dawn of the IT revolution, the British Government asked a department of the University of Cambridge to do one thing: to take the emerging computer technology and use it to make engineering better.

As the world woke up and ran in different directions, the department became a company. It watched, it thought and it developed. It realised that the creation, sharing and protection of engineering information was the single most important factor in projects and asset management. It followed that information should be able to travel freely, that tasks were more important than tools, and that the boundaries of engineering execution could be crossed if they were understood.

In the longest history of any solution provider, AVEVA has delivered a design system that has evolved through every change that the IT revolution has thrown at it, protecting its customers' valuable information and remaining compatible with even the earliest of their projects. It has built a steadfast reputation in every sector of the process, power and marine industries to become the most successful solution provider in the world. But, most of all, AVEVA has not forgotten what it was asked to do back in 1967.

AVEVA is here because engineering is here.

POWER

As the world's human population makes its way towards the seven billion figure, the need for new energy to power, homes, businesses, cities and industries is rising at a staggering rate. The current estimation of the need for new generation equates to over three hundred large new power stations per year. China is the world's fastest growing industrial nation, currently using almost six million barrels of oil a day just to fuel its industrial growth. The power industry is another stronghold for AVEVA, not only enjoying a market dominance in the Far East, but having had its complete suite of solutions selected for Europe's first new nuclear power station in ten years.

OTHER INDUSTRIES

Alongside its main markets of Oil and Gas, Power and Marine, AVEVA has had a successful year in some of its ancillary industry sectors, in particular the activities in mining, with significant wins in Australia as the AVEVA local office there starts to make an impact on this market. Activities have continued in the Pharmaceutical and Food Processing Industries and whilst these have grown less strongly than other sectors the Paper and Pulp industry has been strong, with AVEVA present in the top five of the world scale producers. Our integrated product solution continues to penetrate all areas of the process industry and dominate in our major sectors.

CHAIRMAN'S STATEMENT

AVEVA has made excellent progress this past year, achieving record levels of turnover, profit and cash.

Our continued strong performance reflects AVEVA's dominant position in growth markets, leading innovative technologies and an infrastructure geared towards expanding and maintaining relationships with blue chip customers across the globe.

We look to the future with confidence and are particularly excited by the prospects for VNET.

Turnover for the year increased by

51%

During the year under review we saw a healthy increase in demand for our VANTAGE solutions in all our major target sectors of oil and gas, power and marine. Our marine business (Tribon), acquired at the beginning of the year, performed ahead of plan and has benefited from a smooth integration into the enlarged group. Its success has contributed to a particularly outstanding performance in the Asia Pacific region.

KEY FINANCIALS

Turnover for the year increased by 51% to £57.5 million (2004 - £38.1 million). In terms of organic growth (excluding Tribon), turnover increased by a very commendable 15% to £43.7 million. Recurring revenues increased by 42% to £32.6 million (2004 - £23 million). Recurring revenues excluding Tribon amounted to £25.7 million, an actual increase of 14% when using consistent exchange rates.

Following the acquisition of Tribon in May 2004 and as highlighted at last year's preliminary results, an exceptional charge of £2.3 million has been expensed this year in order to facilitate a smooth integration of the business. I am delighted to report that the restructuring of the enlarged group has resulted in full year savings ahead of initial expectations at £3.3 million.

As a result of the acquisition, goodwill and intangible amortisation for the year was £2.7 million (2004 - £0.6 million).

Profit before tax, exceptional restructuring costs and goodwill amortisation increased by 60% to £10.7 million (2004 - £6.7 million), generating adjusted earnings per share of 36.7p (2004 - 26.2p) – an increase of 40%.

AVEVA continued to be strongly cash generative with net cash as of the year-end at £11.2 million (2004 - £8.7 million).

DIVIDEND

Following another excellent year and ongoing confidence in the outlook for AVEVA, the Board is proposing an increased final dividend of 4.3p per share (2004 - 4.0p). Together with the interim dividend of 1.8p, this gives a full year dividend of 6.1p (2004 - 5.8p).

Subject to final approval at the Annual General Meeting, the final dividend will be paid on 1 August 2005 to shareholders on the register at 1 July 2005.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Preparations continue for the introduction of the International Financial Reporting Standards that will first impact the group's interim statement for the six months to 30 September 2005. The group will advise its shareholders on any changes in advance of its half-year statement.

PROSPECTS

The successful integration of Tribon and the subsequent restructuring of the enlarged group, has undoubtedly enhanced AVEVA's leading position in the engineering data and IT markets. Our exposure to high growth, dynamic market economies such as China and Korea, leadership in key target sectors, strong blue chip client partnerships, innovative approach and greater global scale and reach, give me confidence that we are well positioned to deliver further turnover and profit growth, and ultimately, shareholder value. In the current year the investment required to exploit the exciting opportunity within VNET will affect profitability, however we are confident of a significant return on this investment from the next financial year.

RICHARD A KING CBE
Chairman

18 May 2005

CHIEF EXECUTIVE'S REVIEW

This year has been characterised by excellent growth, record financial results and corporate development to further strengthen our strategic position.

Adjusted net profit before tax of

£10.7m

up 60% from 2004

The acquisition of Tribon in May 2004 transformed AVEVA's presence in the fast growing marine market and further exposed the business to some of the world's most dynamic economies in the Asia Pacific region.

This year could prove to be equally exciting, as we increase the roll out of our unique VANTAGE Enterprise NET ("VNET") to a wider customer base and begin to reap the benefits of bringing together Tribon technology with AVEVA's core VANTAGE offer.

DELIVERING 'A COMPLETE SOLUTION'

For four decades, AVEVA has been delivering industry leading solutions to some of the world's largest full service engineering, procurement and contracting (EPCs) companies, playing a vital role in bringing engineering projects to safe, early, cost effective completion. However over the last three years, traditional EPC customers and more specifically owner operators, are increasingly demanding vendors to be able to co-ordinate multiple products and provide engineering data in a neutral format for ongoing maintenance and operations. With this in mind, we developed our VNET product. Launched in 2003, VNET now has a proven track record of acceptance within our customer base and is helping improve efficiencies in some of the largest capital projects in the world.

VNET AND STRATEGIC ACQUISITION OF REALITYWAVE

Historically there have been integration problems in the handover of a project from an EPC to an owner operator. VNET is an innovative technology application that enables integration and collaboration between users of engineering information through an internet based portal, regardless of its format and without the customer requiring to licence expensive and complex authoring applications. The response from customers to date has been very positive.

To support the development of this opportunity we have acquired Realitywave for £3.2 million. Realitywave's patented technology is a critical component in our VNET offering. The technology allows users to efficiently access and manipulate large amounts of information (be it data or designs) by way of a unique streaming technology. This acquisition supports existing business requirements and secures a key technology as we develop this capability.

VNET is now ready for a wider customer roll out. In order to maximise the opportunity for growth, we intend to invest an additional £2 million over and above our current commitments during the next twelve months in strengthening solution integrators and recruiting additional sales people. Whilst this will constrain earnings growth in the short term, it represents a significant opportunity to accelerate profitability in future years.

CHIEF EXECUTIVE'S REVIEW CONTINUED

80%

of the top 20 shipbuilders use AVEVA's solutions

Marine - keeping the mighty industry afloat

SECTOR FOCUS

The enlarged group targets three main markets which contribute broadly similar proportions of revenue (oil and gas, marine and power), amounting to 85% of the overall business. Our performance in these three markets has been very strong with a good inflow of new business and renewal of rental contracts. Our reputation for excellence and ability to deliver a 'complete solution' provides us with a good platform to grow our business in all three of our core markets.

Marine: The marine business (Tribon), a new market for AVEVA, has performed ahead of expectations this year generating revenues of £14 million. As the Chairman has already stated, the synergy benefits of bringing the two businesses together under the AVEVA brand and its overall performance, have exceeded expectations.

Tribon is the world's leading provider of marine design solutions and specialises in hull design. Over 80% of the world's top twenty shipbuilders currently use Tribon and we are finding that AVEVA's existing core technology is hugely complementary to Tribon's own product suite. This bringing together of the two technologies is progressing to plan and we believe it will lead to improved functionality, and in turn, increased sales.

Recurring revenues have also increased as our customers become more aware of the enhanced offer. This is demonstrated by a new contract signed in the latter half of the year with Daewoo. In December we entered into a strategic development partnership with Hyundai, the world's largest shipbuilder. Under the partnership agreement, Hyundai has collaborated with AVEVA in the development of the next generation of VANTAGE Marine, committing US$8 million to development costs, on top of paying annual rental fees, initially to 2011. We have been excited by the progress so far, and I am pleased to report that Hyundai have started to use AVEVA products well before they originally intended. This endorsement from the world's most influential shipbuilder demonstrates that our own VANTAGE technology is not only highly complementary to the marine industry, but is increasingly becoming viewed as 'must have'. We are positive that this will lead to significant new business opportunities during the course of this year.

Whilst we have secured some significant new contracts in our non-core markets of paper and pulp, mining, food processing, chemical and pharmaceutical, these sectors are not growing as strongly as AVEVA business in oil and gas, power and marine.

15%

of the world's shipbuilding market is occupied by Hyundai Heavy Industries - AVEVA's customer and development partner

Over

33%

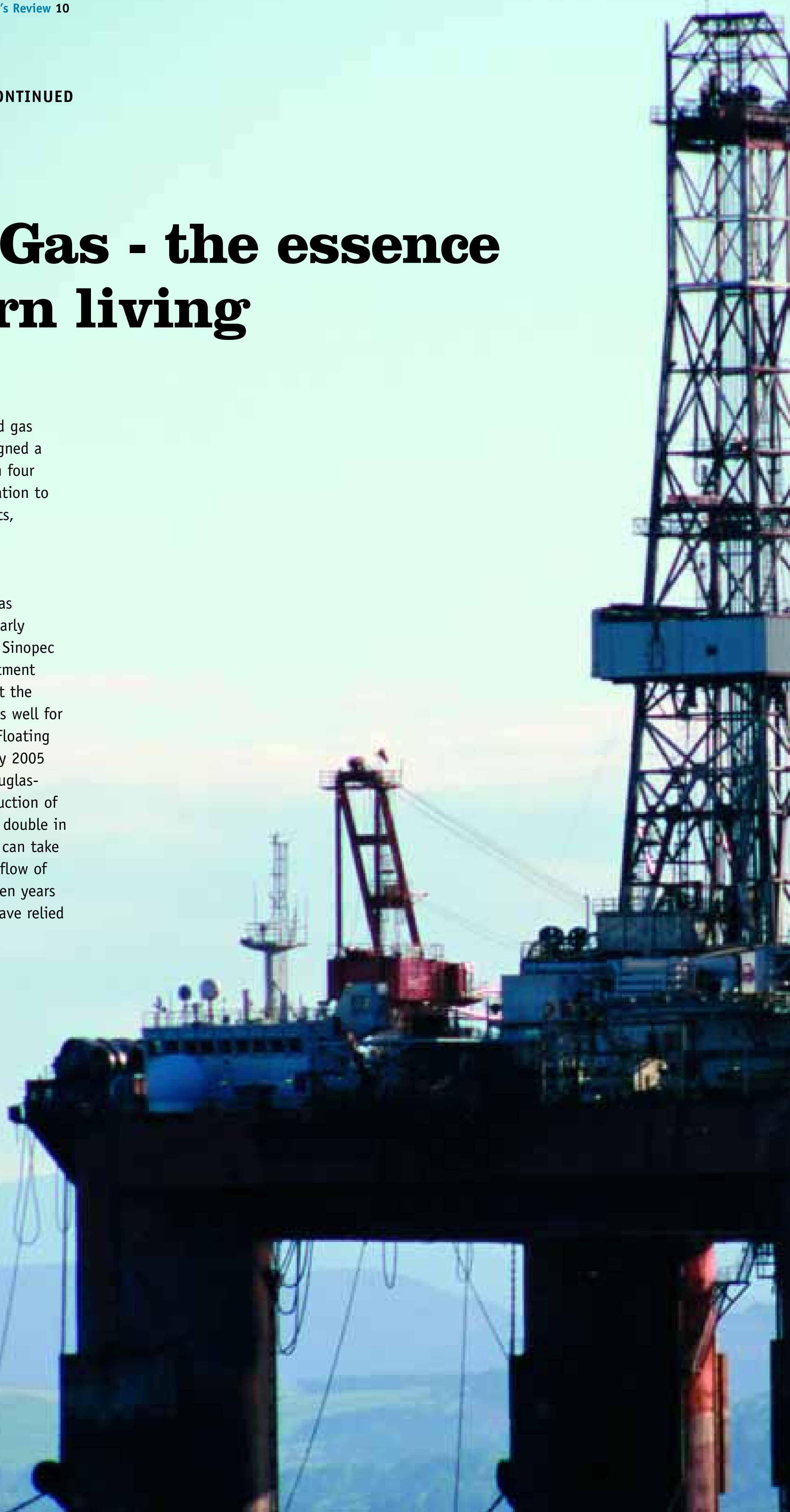
of all global ship design and production is powered by AVEVA's solutions

CHIEF EXECUTIVE'S REVIEW CONTINUED

Oil and Gas - the essence of modern living

Oil and Gas: turning to the oil and gas sector, prior to the year-end we signed a deal worth over US$1 million with four subsidiaries of the Sinopec Corporation to provide a suite of VANTAGE products, including PDMS.

We have seen a steady increase in confidence for long term oil and gas projects around the world, particularly in the Asia Pacific region, and the Sinopec deal outlined above and our investment in globalising our products to meet the differing needs of customers, bodes well for another excellent year. The World Floating Production Report published in May 2005 by energy business consultants Douglas-Westwood, forecasts that the production of floating offshore fields will almost double in the next five years. We believe we can take advantage of this potential new inflow of business given that over the last ten years 80% of all new offshore projects have relied on AVEVA solutions.



80%

of all global offshore projects in the last decade have used AVEVA's design solutions

50%

of the oil extracted from the UK North Sea in 2000 came from facilities designed using AVEVA's solutions

50%

of the time taken to design a major offshore facility in 1990 is all it takes today with AVEVA

CHIEF EXECUTIVE'S REVIEW CONTINUED

Power: A notable success for AVEVA has been in China in the power industries, both nuclear and fossil fuelled. We now dominate this market and work with over 75% of the country's power design institutes. China's fast growing economy and the subsequent phenomenal demand for extra power capacity, should result in further opportunities going forward.

At the year-end we signed contracts totalling US$0.3 million with the Dongfang and Harbin Boiler companies, as well as the Shanghai Boiler Works. AVEVA is now effectively the biggest provider of engineering IT solutions to the £1billion Chinese industrial boiler market. All three companies purchased our flagship product, VANTAGE PDMS, with Harbin Boiler Works also investing in other integrated AVEVA solutions.

Power - the industry, the lights and the magic

75%

of the regional, provincial and nuclear power design institutes in China use AVEVA's solutions

All of the major industrial boiler manufacturers in China have chosen AVEVA's solutions

CHIEF EXECUTIVE'S REVIEW CONTINUED

Other industries showed continued growth in 2005

PERFORMANCE AND SALES

We have continued to gain market share in our target sectors and across geographies, particularly in the Asia Pacific region.

GEOGRAPHIC REVIEW

Asia Pacific – 35% of group revenue: £20.3 million (2004 - £8.7 million)

The migration of engineering design and major contracts away from more traditional markets toward the emerging economies of the Far East has continued again this year. We were particularly pleased with our performance in China, Korea and Japan.

AVEVA's successful penetration of Asian Pacific markets stems from the investment we have made in the region over the last few years and is largely a result of three factors. Firstly, an unrivalled network of over ten offices throughout nine countries including China, Japan, Korea, Malaysia and Australia. Secondly, a highly experienced and culturally astute management team led by Peter Finch. And finally, a better than planned performance from our marine business, Tribon.

In terms of organic growth, process (oil and gas and power) revenues continued to strengthen. As we roll out combined AVEVA and Tribon solutions this year, we are confident that we will be able to build on our already dominant position in the marine market in the region. Our success has been highlighted by concluding the sale to four subsidiaries of Sinopec, China's largest producer and marketer of oil products, the country's leading supplier of major petrochemical products and the second largest crude oil producer.

EMEA – 49% of group revenue: £27.9 million (2004 - £19.5 million)

Organic revenues in the EMEA region were up 19% on the prior year. Although the market in Europe is mature and our growth less pronounced than in Asia Pacific, existing customers are taking up a broader range of AVEVA products. This is in part a response to a growing demand amongst customers, particularly in Central and Southern Europe, to improve efficiency in engineering projects.

Growth in Europe is also being driven by a demand for extra power capacity, which will in turn lead to significant additional investment in the energy infrastructure. We are already seeing a pan European revival of nuclear power, with the first new design of a European pressurised reactor currently being built in Finland. All AVEVA products are being used extensively for the design. Similar projects elsewhere on the continent are expected this year and we hope to benefit given our reputation for delivering safe, cost effective and efficient solutions. Our unique VNET offering also gives us a platform through which to exploit more diverse opportunities as they arise.

In terms of the marine industry, there is a very healthy demand for shipbuilding worldwide. Lack of capacity in the Asia Pacific region is beginning to result in a re-emergence of European shipyards.

Americas – 16% of group revenue: £9.3million (2004 - £9.1million at this year's exchange rates)

The weakness of the US dollar impacted revenues for the year and there is an ongoing pressure on large contractors to migrate projects away from the US in order to utilise more inexpensive local resources. Despite this, our aim is to strengthen our position in a market where we see good long-term prospects.

A number of important new contracts in the oil and gas and chemical markets were signed during the year.

CHIEF EXECUTIVE'S REVIEW CONTINUED

TECHNOLOGY AND PRODUCTS

AVEVA has a long and proud history of providing innovative and advanced solutions. With the acquisition of both Tribon and Realitywave, AVEVA has extended its capability in the marine market and added patented streaming technology. These additions will provide a broader set of applications now and the availability of new technology for future products.

At the heart of AVEVA's VANTAGE solution suite is its proven database technology, still regarded as the best in the industry. We have already proven the value of the database in the future versions of marine products, as our integration of marine and process products have moved ahead much faster than originally planned. Another value at the core of our technology has been our principle of providing customers with an upgrade path to future products wherever possible, maintaining their investment in data and procedures. Whilst we are committed to providing 'best in class' applications and protecting our valuable IPR, we also support openness in our applications and have invested heavily over the year in providing new tools for data exchange.

Our unrivalled domain expertise has enabled us to combine the application knowledge built into our products over many years with new technologies such as Microsoft.NET, which is appearing across the range of products delivering wide-ranging benefits for customers. In order to introduce new technology and bring products to market faster, we have enhanced our technical skills in Eastern Europe and India and we expect to grow our outsourcing capacity considerably over the coming years.

In order to maintain our competitiveness in product development we have introduced 'best practice', along with the industry leading software methodology, to ensure our very high degree of quality assurance.

Over the last few years we have been working much more closely with partners, with this being evidenced by the joint development with AutoDesk. Recently we have been working very closely with a number of vendors in the field of laser data capture, an area of great interest to customers looking to capture information from existing plants and rebuild data models in AVEVA products.

With an enlarged team and a broader product set AVEVA has all the essentials in place to build on its competitive advantage and further strengthen its market position.

PEOPLE AND ORGANISATION

The most important factor behind both the growth this year and the thoroughly professional way in which the Tribon organisation has been combined within AVEVA, has been the people. There is a passion within the group to provide the best solutions for our customers, to continue our product evolution using innovative ideas and new technologies to the best advantage for our customers' futures.

We have welcomed many new staff from Tribon into the AVEVA organisation and new domain knowledge of the marine market.

I would like to thank all AVEVA staff for an excellent performance throughout the year.

THE FUTURE

Our unrivalled technology, leading competitive position, global scale and reach, focus on high growth key target sectors and planned wider roll out of our unique VNET product, combined with a favourable environment where our main competitor is forcing its customers into a technology refresh program, imbues me with confidence that we will make significant progress again this year.

RICHARD LONGDON
Chief Executive

18 May 2005

CORPORATE SOCIAL RESPONSIBILTY REPORT

The Directors recognise the increasing importance of corporate social responsibility and endeavour to take into account the interests of the group's stakeholders, including its investors, employees, customers, suppliers and business partners when operating the business. The group believes that having empowered and responsible employees who display sound judgment and awareness of the consequences of their decisions or actions, and who act in an ethical and responsible way, is key to the success of the business.

EMPLOYEES

The group's success depends on the quality of the people it employs and seeks to attract, train and develop talent from the UK and overseas. The group places considerable value on their involvement and aims to keep them informed of matters affecting them as employees, which is achieved through a variety of formal and informal means.

The group is committed to the principles of equal opportunity in all its employment practices, policies and procedures. The group does not tolerate any harassment or discrimination. The group practices equal treatment of all employees or potential employees irrespective of their race, creed, colour, sexual orientation, nationality, ethnic origin, religion, disability, age, gender or marital status. The equal opportunities policy covers all permanent and temporary employees, all job applicants, agency staff, associates, consultants and contractors. The group also endeavours to be honest and fair in its relationships with customers and suppliers and to be a good corporate citizen, respecting the laws of countries in which it operates.

The maternity leave and maternity pay policy conforms to statutory requirements. Flexible approaches to return to work after maternity leave and part-time or non-standard hours and work patterns are considered where viable. The group has adopted a paternity leave policy in line with UK legislation.

ENVIRONMENTAL POLICIES

The group's operations consist of software development and sales and administration functions and therefore by their very nature have a low environmental impact. The group policy is to meet the relevant statutory requirements and apply good environmental practice. This includes minimising paper consumption through use of electronic media and recycling of paper, computer equipment and toner cartridges.

HEALTH AND SAFETY

The group recognises its legal responsibilities to ensure the well being, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for visitors and sub-contractors while they are on AVEVA's premises. The group has appropriate systems in place which review local and world wide policy.

FINANCIAL REVIEW

The group results for the year show growth in revenue of 51% from £38.1m to £57.5m and growth in profit before tax (after adding back exceptional items and goodwill) of 60% from £6.7m to £10.7m which reflects the successful acquisition of Tribon Solutions AB and continued growth of the ongoing operations. In addition, the group ended the year with a strong net cash position of £11.2m (2004 - £8.7m).

ACQUISITIONS

Tribon Solutions AB ("Tribon")

The group acquired Tribon on 19 May 2004 for total cash and shares consideration of £20.3m which resulted in goodwill of £23.9m arising. Tribon develops, markets and supports software solutions for use in the design and production processes in the marine industry and is headquartered in Sweden with offices in Germany, India, Japan, Republic of Korea, Russia, Singapore and the UK. Goodwill is being amortised over ten years and the charge in the period was £2,065,000.

Realitywave Inc ("Realitywave")

On 31 March 2005, the group acquired Realitywave, a software development company based in Boston, Massachusetts, USA for cash consideration of £3.2m resulting in goodwill of £3.5m which is being amortised over five years. The principal reason for the Realitywave acquisition was its key technology which is a fundamental part of the Vantage Enterprise Net product. The profit and loss account does not contain any trading results for Realitywave as the acquisition closed on the last day of the financial year.

RESULTS OF OPERATIONS

Turnover

Ongoing operations Revenue from ongoing operations for the year was £43.7m (2004 - £38.1m), an increase of 15% from 2004.

License fees were £12.7m in 2005 compared to £10.0m in 2004, an increase of 27%. Recurring revenue for the year was £25.7m (2004 - £23.0m) and accounted for 59% of total revenue (2004 - 60%). Recurring revenue actually increased by 14% when using consistent exchange rates.

Service revenue, which include training, implementation and consulting fees was £5.3m compared with £5.1m last year.

Tribon operations The integration of the Tribon group has gone extremely well and has delivered revenue for the period from May 2004 to March 2005 of £13.8m which was ahead of our initial expectations.

License fees were £5.5m and recurring revenue for the year was £6.9m accounting for 50% of total revenue. The percentage of recurring revenue compared to total revenue for the Tribon business is expected to increase as we continue to migrate customers onto the group standard licencing model where customers have to pay for the continued right to use the software.

Service revenue, which include training, implementation and consulting fees was £1.4m.

GROSS MARGINS, OPERATING EXPENSES AND OPERATING PROFITS

Overall the group maintained its gross margins at 67%. Operating expenses were £30.8m (before exceptional items of £1.9m) compared with £19.4m in 2004 reflecting the increased size of the group's operations following the Tribon acquisition.

Operating profits were £10.8m compared with £6.8m in 2004 before amortization of goodwill and intangibles of £2.7m (2004 - £0.6m) and exceptional items of £2.3m (2004 - £nil) representing the successful integration of the Tribon business and continued growth of the ongoing operations.

Ongoing operations Gross margins dropped slightly to 66% compared with 67% in 2004. Operating expenses as a percentage of turnover were maintained at 51% after charging exceptional restructuring costs of £0.3m.

Tribon operations Gross margins in the Tribon business for the period from May 2004 to March 2005 were 71% although this is slightly distorted by the fact that head office costs such as those in the legal and contracting department are not separately identifiable between the two business streams.

Operating expenses for the period were £8.7m before exceptional costs of £1.6m relating to the restructuring as described below.

Group research and development Expenditure on research and development for the year was £11.2m representing 19% of revenues of which £7.7m was incurred by ongoing operations and £3.5m was incurred by Tribon. This compares with £6.9m or 18% of revenues in 2004. Group R&D spend in the year has principally been on developing version 11.6 of Vantage Plant Design, developing VNET, our internet based application which allows integration of all common engineering products, and the development of the new Vantage Marine product which is being strongly supported by the major contract won with Hyundai in December 2004. Consistent with previous years, all research and development expenditure is expensed in the profit and loss account.

Headcount costs The largest single element of operating expenses continues to be headcount and the associated costs. Group staff costs in the year were £23.2m compared to £16.2m in 2004, an increase of 43% representing the additional employees the group now has following the Tribon acquisition. The average number of employees increased from 326 to 474 in the year.

Exceptional item – restructuring costs
Following the acquisition of Tribon, the group has undergone a restructuring of its operations to integrate the Tribon business within existing operations with a charge of £2.3m recorded as an exceptional cost in the profit and loss account in the year. The restructuring will result in annualised savings of £3.3m to the group. Of the total cost of £2.3m, £1.8m related to headcount reductions principally in Sweden in sales and administration and £0.2m related to the restructuring of the regional

offices with synergies being achieved in most locations where there was more than one office. In addition, £0.2m has been incurred in legal and professional costs in relation to the restructuring of the statutory entities and £0.1m relating to the write down of fixed assets. During the year, statutory entities in the USA and the UK were merged, and entities in Japan and Korea are expected to be merged in the first half of 2005/06. The savings achieved are ahead of plan and the group is delighted that the integration of Tribon has gone so well.

GEOGRAPHICAL PERFORMANCE
The strongest performing region was Asia Pacific which saw its turnover from ongoing operations increase by 47% from £8.7m to £12.8m and has also benefited most from the acquisition of Tribon with revenue of £7.5m from the marine business, reflecting the strong growth in shipbuilding in the Far East.

The performance in Europe was steady with revenue from ongoing operations increasing by 12% from £19.5m to £21.9m.

The Americas continue to struggle with the US market remaining depressed and highly competitive and its results continue to be impacted by the weakening of the US Dollar. There was also further evidence of a continued shift of global projects from the US to other areas such as Asia.

The Chairman's statement and the Chief Executive's review provide more details of the group's performance in the year.

TAXATION
The group tax charge for the year was £2.9m (2004 - £2.2m) representing an effective tax rate before amortization of goodwill and intangible assets of 34% (2004 - 33%). One of the key factors influencing the actual tax rate was the fact that goodwill of £2.3m is not tax deductible. The other key factor impacting the effective tax rate was the significant proportion of the profits earned by overseas subsidiaries, subject to higher rates of tax, partially offset by the benefits of the tax credit on qualifying research and development expenditure in the UK.

The group is continuing to restructure the enlarged organisation such that tax losses which were acquired as part of the Tribon and Realitywave acquisitions can be utilised in the future, subject to local tax regulations.

EARNINGS PER SHARE
Adjusted earnings per share (before exceptional items and goodwill and intangible amortisation) was 36.71p compared with 26.20p in 2004, an increase of 40%. Basic earnings per share was 13.48p (2004 - 22.63p). The directors believe that adjusted earnings per share provides a more meaningful measurement of performance of the underlying business.

DIVIDENDS
The Board recommends a final dividend of 4.3p per ordinary share, resulting in a total dividend per share for the year of 6.1p (2004 - 5.8p). The final dividend will be paid on 1 August 2005 to shareholders on the register at the close of business on 1 July 2005. The cost of dividends paid and proposed in respect of the financial year was £1.5m (2004 - £1.0m).

BALANCE SHEET
The group balance sheet continues to remain strong with net assets increasing from £21.6m to £43.6m at 31 March 2004. Trade debtors at 31 March 2005 were £22.5m compared with £14.4m and deferred revenue was £11.2m compared to £6.0m at 31 March 2004.

CASH FLOWS
Overall net cash balances increased by £2.5m from £8.7m to £11.2m which is after the acquisition of Realitywave for £3.2m and exceptional costs paid of £1.5m. Cash flow for the year from operating activities was £11.6m (2004 - £7.9m) reflecting strong collection of accounts receivable by the year end. Net capital expenditure was £0.9m (2004 - £1.6m) which was principally the renewal of computer equipment, tax paid was £3.2m (2004 - £2.0m) and equity dividends paid were £1.3m (2004 -£1.0m).

CAPITAL STRUCTURE AND TREASURY POLICY
In May 2004 the group raised £17.2m (approximately £14.7m net of expenses), pursuant to a Placing and Open Offer of 3,645,112 ordinary shares of 10p each in order to finance the acquisition of Tribon. In addition, 789,655 ordinary shares of 10p each were issued to the vendors as part of the consideration. The group paid £15.0m in cash to acquire Tribon in addition to transaction costs of £2.6m. The total number of ordinary shares outstanding at 31 March 2005 was 22,036,617.

The acquisition of Realitywave for £3.2m was financed from existing cash resources.

The group continues to finance its operations through a combination of retained profits, new equity and bank overdraft facilities. During the year the group had an bank overdraft and revolving loan facility of £6.0m in the UK and approximately £2.3m (SEK 30m) in Sweden which was utilised to manage short term fluctuations in cash before remittances from the overseas entities. Where considered surplus to working capital requirements, the group converts US Dollars and Euro balances into Sterling on an ongoing basis. Cash is held on short term deposits with reputable banks to maintain a balance between accessibility to the funds and competitive rates of return. The group treasury policy ensures that the capital is not put at risk.

Approximately £52.0m (90%) of the group's turnover is generated outside the UK and is invoiced in currencies other than sterling. The group enters into forward foreign currency contracts to manage the currency risk where material. The overseas subsidiaries trade in their own currencies and that also acts as a natural hedge against currency movements. The group is also exposed to foreign currency translation risk on the translation of its net investment overseas into sterling. This is managed to some extent by the overseas subsidiaries incurring costs denominated in their local currency. Further details of the group's financial instruments are provided in note 17 to the financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")
All listed companies in the European Union have to report their consolidated results under IFRS for accounting periods commencing on or after 1 January 2005. The group will prepare its first consolidated financial statements in accordance with IFRS for the year ending 31 March 2006 together with the interim statement for the six months ending 30 September 2005. Preparations for conversion to IFRS are underway and the group expects to be fully prepared for the introduction of IFRS.

PAUL TAYLOR
Finance Director

18 May 2005

BOARD OF DIRECTORS


Richard King CBE


Richard Longdon


Paul Taylor


David Mann


Colin Garrett

RICHARD KING CBE, AGED 75, NON-EXECUTIVE CHAIRMAN

Richard King joined AVEVA at the time of the management buyout negotiations and was appointed Chairman at their conclusion in August 1994. Prior to that he held various senior management positions in both Pye of Cambridge and Philips NV in the UK and overseas. In 1980 he created, out of Philips, Cambridge Electronic Industries, a group of some twenty-five specialist companies. The group was listed on the London Stock Exchange (LSE) in 1982 and he was CEO throughout the 1980's. Richard then turned his attention and interests to the development of early stage technical companies, mostly in Cambridge. Three of these, apart from AVEVA, where at various times he was Chairman, obtained LSE listings. He also committed considerable time to public service appointments as a director or Governor of Addenbrooke's Hospital; Anglia Polytechnic University and Eastern Arts and is currently Deputy Chairman of Xaar plc; Chairman of Sentec Limited; governor of Norwich School of Art and Design and a trustee of the East Anglian Air Ambulance Trust. He is an Emeritus Fellow of Darwin College in the University of Cambridge.

RICHARD LONGDON, AGED 49, CHIEF EXECUTIVE

Richard Longdon received an engineering training in the defence industry then gained experience in the project management of high value engineering projects. He moved into sales and held a series of international sales and marketing positions. He joined AVEVA in 1984 and shortly afterwards was made marketing manager for the process products. In January 1992 he relocated to Frankfurt where he was responsible for setting up and running the group’s German office. He returned to the UK as part of the management buyout team in 1994 subsequently taking responsibility for the group’s worldwide sales and marketing activities before being appointed Managing Director in May 1999. He took over as Group Chief Executive in December 1999.

PAUL TAYLOR, FCCA, AGED 40, FINANCE DIRECTOR AND COMPANY SECRETARY

Paul Taylor is a Fellow of the Association of Chartered Certified Accountants and joined AVEVA in 1989. He was heavily involved in the flotation process and has been responsible for both UK accounting and the development of its overseas subsidiaries including adherence to group standards. Between 1998 and 2001 Paul was also UK Director of Human Resources and was appointed to the position of Finance Director and Company Secretary of AVEVA Group plc on 1 March 2001. Prior to joining AVEVA, Paul originally trained within the accountancy profession before moving to Philips Telecommunications (UK) where he was responsible for the management accounts of its Public sectors division.

DAVID MANN, AGED 60, NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR

David Mann was educated at Jesus College, Cambridge. He is Non-Executive Chairman of Charteris plc, a business and IT management consultancy, which he established with some colleagues in 1996 and was floated on AIM in 2000. He is also Non-Executive Chairman of Flomerics Group plc (quoted on AIM) and Non-Executive Director of Room Solutions Limited. Prior to setting up Charteris, he spent almost all his career with Logica plc where he became head of worldwide operations, then Group Chief Executive and finally Deputy Chairman. He is a Past President of the British Computer Society and a Past Master of the Worshipful Company of Information Technologists in the City of London.

COLIN GARRETT, ACA, AGED 48, NON-EXECUTIVE DIRECTOR

Colin Garrett has spent the majority of his career in corporate finance. For the last five years he has been involved, in a non-executive capacity, with a number of companies and management teams. Colin is a Non-Executive Director of Intec Business Colleges plc and Sentec Limited. He is also Non-Executive Chairman of 3G Comms Limited, ZBD Displays Limited and Pelikon Limited.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2005

The directors present their annual report on the affairs of the group together with the Financial statements and Auditors' report for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The company is a holding company. The principal activities of the group are the marketing and development of computer software and services for engineering and related solutions.

BUSINESS REVIEW

A review of the group's operations during the year and its plans for the future is given in the Chairman's and Chief Executive's statements and Financial review.

The group made a profit for the year after taxation of £2,882,000 (2004 - £3,910,000). Sales were £57,543,000 (2004 - £38,113,000) with overseas sales representing 90 % (2004 - 91%) of the business.

CREDITORS' PAYMENT PRACTICE

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with by the other party.

The company has no trade creditors (2004 – £nil).

RESULTS AND DIVIDENDS

The group results and dividends are as follows:

	£000
Group profit for the year after taxation	2,882
Dividends paid and proposed	
- interim dividend paid of 1.8p per ordinary share	(396)
- final dividend proposed of 4.3p per ordinary share	(948)
- final dividend paid for 2004 in respect of additional shares issued	(179)
Retained profit for the year	1,359

RESEARCH AND DEVELOPMENT

The group continues an active programme of research and development and all costs are expensed as incurred. The research and development programme covers updating of and extension to the group's range of products.

INTELLECTUAL PROPERTY

The group owns intellectual property both in its software tools and the products derived from them. The directors consider such properties to be of significant value to the business. Intellectual property acquired is capitalised at cost but internally developed intellectual property costs are written off as incurred.

DIRECTORS' REPORT CONTINUED

DIRECTORS AND THEIR INTERESTS

The directors who served during the year under review are shown below:

- • R A King (Chairman)
- • C A Garrett
- R Longdon
- • D W Mann
- P R Taylor

• Non-executive directors

The beneficial interests in the shares of the company of directors who held office at 31 March 2005 are as follows:

	2005 10P ORDINARY SHARES	2004 10P ORDINARY SHARES
R A King	131,250	131,250
C A Garrett	–	–
R Longdon	380,476	380,476
D W Mann	17,800	17,800
P R Taylor	8,000	8,000

No changes took place in the interests of directors in the shares of the company between 31 March 2005 and 18 May 2005.

Directors' share options are disclosed in the Directors' remuneration report on page 26.

Resolutions will be submitted to the Annual General Meeting for the re-election of Richard King and David Mann. Brief biographical details of those directors who are proposed for re-election appear on page 20.

OTHER SUBSTANTIAL SHAREHOLDINGS

On 20 May 2005, the company had been notified in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

NAME OF HOLDER	NUMBER	PERCENTAGE HELD
Nutraco Nominees Limited	1,598,724	7.25
Chase Nominees Limited	1,105,304	5.01
The Bank of New York (Nominees) Limited BIL ACCT	973,736	4.42
Chase Nominees Limited UBSGAMEQ Account	795,399	3.61
HSBC Global Custody Nominee (UK) Limited	775,000	3.52
Vidacos Nominees Limited SL031 ACCT	750,000	3.40
Vidacos Nominees Limited	729,609	3.31
BNY (OCS) Nominees Limited	727,668	3.30
Chase Nominees Limited SUTL Account	694,464	3.15

CHARITABLE DONATIONS

During the year the group made charitable donations totalling £11,098 (2004 - £5,403) of which £4,000 was paid to the Tsunami appeal and £5,000 to the International Red Cross with the remainder paid to local charities.

AUTHORITIES TO ALLOT SHARES AND DISAPPLY PRE-EMPTION RIGHTS
Resolution 9 set out in the notice convening the Annual General Meeting contains authority for the directors to allot relevant securities until the earlier of 14 October 2006 and the date of the next Annual General Meeting up to a maximum nominal amount of £734,673 (representing 33.33% of the total issued ordinary share capital as at 26 May 2005. At that date, no treasury shares were held by the company.

Resolution 10 gives the directors the power to allot equity securities for cash pursuant to this authority, disapplying the pre-emption provisions contained in Section 89(1) of the Companies Act 1985. This power is valid for the same period and is limited to the allotment of equity securities up to a nominal amount of £110,201 (approximately 5% of the issued ordinary share capital at 26 May 2005) or in connection with a rights issue or other pre-emptive offer.

The directors have no present intention of issuing further shares other than to satisfy the exercise of option holders' rights under the company's share option schemes or long term incentive plan or in relation to any appropriate acquisition opportunities which may become available to the company.

This authority will also cover the sale of treasury shares for cash.

AUTHORITY TO REPURCHASE ORDINARY SHARES
Resolution 8 set out in the notice convening the Annual General Meeting gives authority to the company to purchase its own ordinary shares up to a maximum of 2,204,021 ordinary shares until the earlier of 14 October 2006 and the date of the next Annual General Meeting. This represents 10% of the ordinary shares in issue at 26 May 2005 and the company's exercise of this authority is subject to the stated upper and lower limits on the price payable which reflects the requirements of the UK Listing Authority. Shares will only be repurchased if earnings per share are expected to be enhanced as a result and the directors believe it is in the best interests of shareholders generally. To the extent that any shares so purchased are held in treasury, earnings per share will be enhanced until such time, if any, as such shares are resold or transferred out of treasury.

The company has the choice of cancelling shares which have been repurchased or holding them as treasury shares (or a combination of both). Treasury shares are essentially shares which have been repurchased by the company and which it is allowed to hold pending either reselling them for cash, cancelling them or, if authorised, using them for the purposes of its employee share plans.

The directors believe that it is desirable for the company to have this choice. Holding the repurchased shares as treasury shares would give the company the ability to reissue them quickly and cost effectively and would provide the company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised, in respect of treasury shares.

As at 26 May 2005 (being the latest practicable date prior to the publication of the notice of the Annual General Meeting), there were 504,900 outstanding options granted under all share option plans operated by the company which, if exercised, would represent 2.24% of the issued ordinary share capital of the company. If this authority were exercised in full and the shares repurchased were to be cancelled, such options if exercised would represent 2.54% of the issued ordinary share capital of the company.

AUDITORS
A resolution to reappoint Ernst & Young LLP as auditors for the ensuing year will be put to the members at the Annual General Meeting.

High Cross
Madingley Road
Cambridge
CB3 0HB

By order of the Board,

P R Taylor
Secretary

18 May 2005

CORPORATE GOVERNANCE STATEMENT

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

In July 2003 "The Combined Code on Corporate Governance" was published by the Financial Reporting Council and it became effective for reporting periods beginning on or after 1 November 2003.

The board is committed to the principles of corporate governance contained in the Combined Code. The company has complied with the provisions of Section 1 of the Code throughout the year except for the following matters:

- A.7.2 Non-executive directors who served during the year do not have contracts of employment for a specific term due to their appointment being prior to the issue of the 2003 Combined Code.
- A.4.1 A nominations committee has not been established because the full board is actively involved in all board appointments.
- D.1.1 During the year the chairman has not discussed corporate governance or strategy with the company's institutional shareholders.

Further explanation of how the principles have been applied is set out below and, in connection with directors' remuneration, in the Directors' remuneration report.

THE BOARD OF DIRECTORS

The board currently comprises the non-executive chairman, two non-executive directors, including the senior independent director, and two executive directors consisting of the chief executive and finance director. Brief biographical details of all members is set out on page 20. The membership of all board committees is set out below:

		BOARD	AUDIT	REMUNERATION
Richard King	Non-executive chairman	Chairman	Member	Member
David Mann	Independent non-executive director	Member	Member	Chairman
Colin Garrett	Independent non-executive director	Member	Chairman	Member
Richard Longdon	Chief executive	Member	–	–
Paul Taylor	Finance director	Member	–	–

It is the view of the board that all non-executive directors are independent. Richard King has served more than nine years as non-executive chairman, which included two years prior to the initial public offering in 1996. The board has considered this and believes that he remains independent. The senior independent director is David Mann.

There is a schedule of matters specifically reserved for the board's decision that covers key areas of the group's affairs which includes overall responsibility for the business and commercial strategy of the group, policy on corporate governance issues, review of trading performance and forecasts, the approval of major transactions and the approval of the financial statements and operating and capital expenditure budgets. The board delegates the day to day responsibility for managing the group to the executive directors.

The attendance of individual directors at board meetings and committee meetings is set out in the table below:

	BOARD MEETINGS	AUDIT COMMITTEE MEETINGS ATTENDED	REMUNERATION COMMITTEE MEETINGS ATTENDED
Number of meetings held	9	3	2
Richard King	8	3	2
David Mann	9	3	2
Colin Garrett	9	3	2
Richard Longdon	9	–	–
Paul Taylor	9	–	–

The full board is actively involved in the nomination, selection and appointment of non-executive and executive directors and this is the reason that a nomination committee for board appointments has not been established. There were no changes to the board structure during the year.

Although no formal meetings between the chairman and the non-executive directors were held during the year without the executives being present, there is regular contact between the non-executives to discuss appropriate matters as necessary. During the year the board constantly monitors its performance and that of its committees and the individual directors, although these discussions are not minuted. Furthermore, individual director's performance is assessed annually by the remuneration committee when determining levels of compensation for the following year. A formal evaluation process will be introduced in 2005.

To enable the board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the company secretary to all directors in advance of board meetings.

The chairman ensures that the directors take independent professional advice as required at the group's expense in the appropriate circumstances and all members of the board have access to the advice of the company secretary. The group maintains directors' and officers' insurance in respect of the risk of claims against directors. All directors are subject to re-election at least every three years and Richard King and David Mann are subject to re-election at the forthcoming Annual General Meeting.

AUDIT COMMITTEE

The Audit Committee comprises the three non-executive directors and is chaired by Colin Garrett with Richard King and David Mann as members. The chairman of the committee, Colin Garrett , is deemed by the board to have the recent and relevant financial experience as he is a Chartered Accountant and has held a number of senior financial roles in his career. The Committee meets as required to review the scope of the audit and the audit procedures, the format and content of the audited financial statements and interim reports, including their notes and the accounting principles applied. The Committee will also review any proposed change in accounting policies and any recommendations from the group's auditors regarding improvements to internal controls and the adequacy of resources within the group's finance function. The Audit Committee advises the board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

The audit committee monitors fees paid to the auditors for non-audit work. The only non-audit work routinely performed by the auditors is tax compliance and tax advisory work. The audit committee believes that it is cost effective for the auditors to carry out these services and that the nature of such work does not impair the independence and objectivity of the auditors. Another firm of accountants was employed during the year for the due diligence services in relation to the acquisition of Tribon Solutions AB and for valuation services in relation to International Financial Reporting Standards work.

The board has considered the requirement to have an internal audit function and given the group's relative size, does not consider one necessary at this point but will continue to monitor this going forward.

DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS

The chief executive and the finance director have meetings with representatives of institutional shareholders and analysts at least twice annually primarily following the announcement of the interim and full year results but also at other times during the year as necessary. These meetings seek to build a mutual understanding of objectives by discussing long-term strategy and obtaining feedback.
The board also receives formal feedback from analysts and institutional shareholders through the company's PR adviser and financial adviser. The chairman, senior independent and non-executive directors are available for dialogue with shareholders at any time but are not routinely involved in investor relations or shareholder communications. During the year the senior independent director had dialogue with institutional shareholders to discuss the new long term incentive plan that was approved in May 2004.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

The board seeks to use the AGM to communicate with investors and all shareholders are encouraged to participate. The chairman of the Audit Committee and the Remuneration Committee will be available at the AGM to answer any questions.

INTERNAL CONTROL

The board has applied Principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the group faces. The board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with Internal Control: "Guidance for Directors on the Combined Code" published in September 1999. The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets and against material misstatement or loss.

In compliance with Provision C.2.1 of the Combined Code, the board continuously reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The board has also performed a specific assessment for the purpose of this annual report. This assessment considered all significant aspects of internal control arising during the period covered by the report. The Audit Committee assists the board in discharging its review responsibilities.

DIRECTORS' REMUNERATION REPORT

This report has been prepared in accordance with Section 234B of the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements of the company will be approved.

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

UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The Remuneration Committee's principal responsibility is to determine the remuneration of both the company's executive directors and its senior management within broad policies agreed with the board. In addition it reviews the remuneration policy for the company as a whole. The remuneration of the non-executive directors is determined by the executive directors, not the Committee.

The Committee comprises a chairman (David Mann) and two non-executive directors (Richard King and Colin Garrett). The chief executive (Richard Longdon) is invited to submit recommendations to the Committee and both he and the members of the Committee take into consideration relevant external market data as well as the reviews of remuneration for employees of the group generally.

REMUNERATION POLICY

The Committee aims to ensure that members of the executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company. It also aims for a combination of fixed and variable payments, benefit and share option plans that will achieve a balance in incentives to achieve short and long-term goals.

BASIC SALARIES

In determining the basic salary of each executive director the Committee takes account of the performance of the company as a whole and the performance of the individual in achieving financial and non-financial goals within his areas of responsibility.

BONUS PAYMENTS

The executive directors participate in annual performance-related bonus schemes determined by the Committee. The schemes are based substantially or entirely on the performance of the company as a whole; part may be based on the achievement of personal objectives. Bonuses payable in the year to 31 March 2005 amounted to, Richard Longdon £132,000 and Paul Taylor £86,000. For the year ended 31 March 2005 there was a cap on the bonus that an executive director could earn under the scheme and the maximum cap was 60% of basic salary.

SHARE OPTIONS

The Committee considers that periodic grants of share-related incentives should constitute an important element of the remuneration of the company's senior executives, in line with common practice in competitive companies. However there was very little scope for providing such incentives via the company's existing share option scheme. Following discussions with and approval from shareholders at the Extraordinary General Meeting held in May 2004, a Long Term Incentive Plan (LTIP) was established by the company in 2004 and the dilution limits under the existing share option scheme were extended.

During the year 12,000 and 9,000 share options under the LTIP were granted to Richard Longdon and Paul Taylor respectively. The options were granted at a price equal to the nominal value of an ordinary share, which is 10p. The extent to which the options are exercisable will depend on the ranking of the company in terms of total shareholder return measured against other companies in the London Stock Exchange techMARK Index. The performance will be measured three years from the date of grant and there is no allowance for retesting.

The options will vest in accordance with the following scale:

TOTAL SHAREHOLDER RETURN RANKING	PERCENTAGE VESTING OF SHARES SUBJECT TO OPTION
75 per cent and above	100 per cent
Median to 75 per cent	Pro rata on a straight line basis
Median	33 per cent
Below median	Nil

In determining the conditions of exercise for any future grants of options under the LTIP, the Remuneration Committee will take note of practical experience, professional advice, market trends and investor guidelines.

SERVICE CONTRACTS

The service contracts and letters of appointment of the directors include the following terms:

	DATE OF CONTRACT	DATE OF APPOINTMENT	NOTICE PERIOD (MONTHS)
R A King	28 November 1996	28 November 1996	3
C A Garrett	14 July 2000	1 August 2000	3
R Longdon	28 November 1996	28 November 1996	12
D W Mann	17 May 2000	8 June 1999	3
P R Taylor	17 October 1989	1 March 2001	9

The Committee considers that the notice periods of the executive directors are in line with those in other companies of a similar size and nature and are in the best interests of the group to ensure stability in senior management. The non-executive and executive directors retire at any Annual General Meeting where they are so required by the Articles of Association, accordingly their contracts have no set termination date.

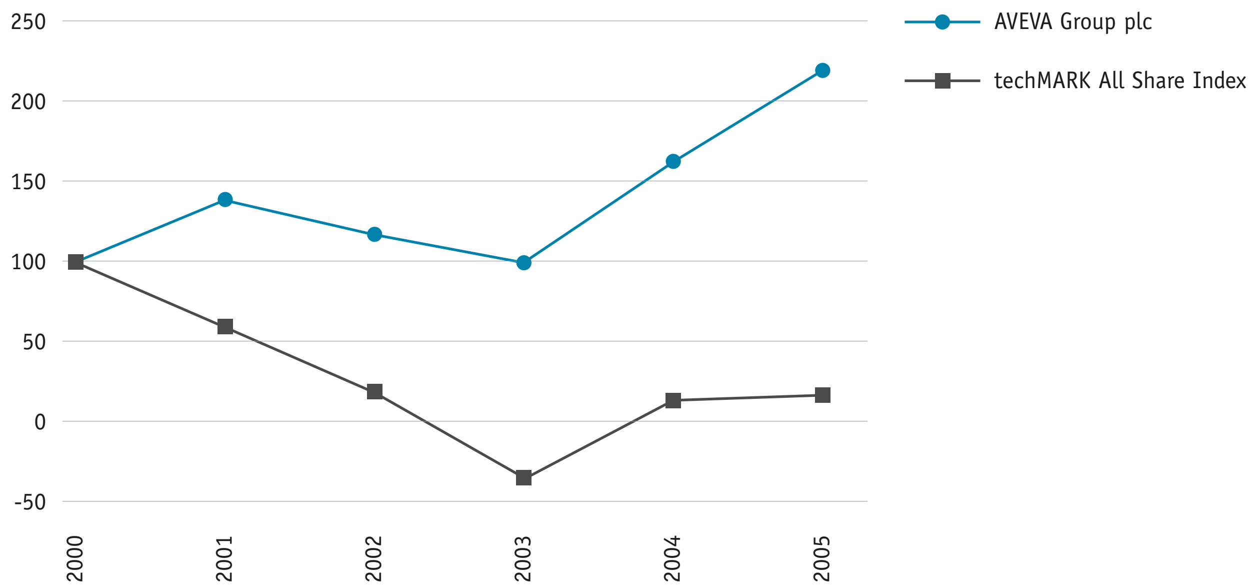
There are no predetermined special provisions for executive or non-executive directors with regard to compensation in the event of loss of office. The Remuneration Committee would be responsible for considering the circumstances of the early termination and in exceptional circumstances will determine compensation payments in excess of the company's contractual obligations.

DIRECTORS' REMUNERATION REPORT CONTINUED

PERFORMANCE GRAPH

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the techMARK All Share Index.

TOTAL SHAREHOLDER RETURN V TECHMARK ALL SHARE INDEX 2000-2005



The directors consider the techMARK All Share Index to be an appropriate choice as the index includes the group.

AUDITED INFORMATION

DIRECTORS' REMUNERATION

The total amounts for directors' emoluments and other benefits were as follows:

NAME OF DIRECTOR	BASIC SALARY £000	FEES £000	BONUS £000	BENEFITS IN KIND £000	2005 TOTAL £000	2004 TOTAL £000
Non-Executive						
R A King	–	57	–	–	57	32
C A Garrett	–	25	–	–	25	20
D W Mann	–	25	–	–	25	20
Executive						
A D Christian*	–	–	–	–	–	188
R Longdon	220	–	132	20	372	239
P R Taylor	143	–	86	17	246	156
Aggregate emoluments	363	107	218	37	725	655

*Remuneration shown up to date of resignation from the board on 31 July 2003.

The remuneration of each executive director includes the provision of a company car or allowance and a fuel allowance.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors.

DIRECTORS' REMUNERATION REPORT CONTINUED

SHARE OPTIONS

The interests of directors in options to acquire ordinary shares were as follows:

NAME	AS AT 1 APRIL 2004 NUMBER	GRANTED NUMBER	EXERCISED NUMBER	LAPSED NUMBER	AS AT 31 MARCH 2005 NUMBER	GAIN ON EXERCISE £	EXERCISE PRICE	EARLIEST DATE OF EXERCISE	DATE OF EXPIRY
R Longdon	100,000	–	–	–	100,000	–	524.7p	19.01.04	18.01.08
	–	12,000	–	–	12,000	–	10p	01.07.07	30.06.11
P R Taylor	71,000	–	–	–	71,000	–	524.7p	19.01.04	18.01.08
	–	9,000	–	–	9,000	–	10p	01.07.07	30.06.11

The market price as at 31 March 2005 was 672.50p with a high-low spread for the year of 492.50p to 682.50p.

The aggregate gain on exercise of options by directors for the year ended 31 March 2005 was £nil (2004 – £312,572).

The options are normally exercisable in full or in part between the third and seventh anniversaries of the date of grant. All options except for those at 10p are subject to performance conditions, which require earnings per share to outperform RPI (utilisation) by a total of 10% over a three year rolling period. The share option rules were established at the time of the company's initial public offering in 1996 and the performance conditions set were commonly used at that time. The options granted during the year at 10p are part of the LTIP scheme and are subject to performance criteria as set out on page 27. The market price at the date of grant was £5.49. The Board monitors whether the performance conditions have been achieved on an annual basis using a formula which is set out within the rules.

PENSIONS

During the year, two directors, (Richard Longdon and Paul Taylor) were members of the AVEVA Solutions Limited's defined benefit pension scheme. It is a contributory, funded, final salary occupational pension scheme approved by the Inland Revenue. Under this scheme they are entitled to a pension on normal retirement, or on retirement due to ill health, equivalent to two-thirds of their pensionable salary provided they have completed (or would have completed in the case of ill-health) twenty-five years' service. Inland Revenue earnings limits apply to Paul Taylor when calculating final salary. Richard Longdon's salary for pension purposes is capped at £175,000. Future calculations of pension entitlement will be based upon the capped salary plus increases in line with those applicable to Inland Revenue limits. A lower pension is payable on earlier retirement after the age of fifty by agreement with the company. Pensions are payable to dependants on the director's death in retirement and a lump sum is payable if death occurs in service.

The following directors had accrued entitlements under the pension scheme as follows:

	ACCUMULATED ACCRUED PENSION AT 31 MARCH 2005 £	ACCUMULATED ACCRUED PENSION AT 31 MARCH 2004 £	INCREASE IN ACCRUED PENSION DURING YEAR £	INCREASE IN ACCRUED PENSION DURING THE YEAR, AFTER REMOVING THE EFFECTS OF INFLATION £	TRANSFER VALUE OF INCREASE, AFTER REMOVING THE EFFECTS OF INFLATION LESS DIRECTORS' CONTRIBUTION £
R Longdon	99,050	92,560	6,490	3,630	24,740
P R Taylor	32,590	28,990	3,600	2,700	11,650

The pension entitlement shown is that which would be paid annually on retirement based on the service to the end of the year.

The transfer value as at date of retirement of each directors' accrued benefits at the end of the financial year is as follows:

	31 MARCH 2005 £	31 MARCH 2004 £	MOVEMENT, LESS DIRECTORS' CONTRIBUTION £
R Longdon	826,310	705,403	109,450
P R Taylor	198,750	158,880	33,380

The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 (and are net of directors' own contributions). Members of the scheme have the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.

High Cross
Madingley Road
Cambridge
CB3 0HB

By order of the Board,

P R Taylor
Secretary

18 May 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FINANCIAL STATEMENTS, INCLUDING ADOPTION OF GOING CONCERN BASIS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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

OTHER MATTERS

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVEVA GROUP PLC:
We have audited the financial statements of AVEVA Group plc for the year ended 31 March 2005 which comprise the Consolidated profit and loss account, Consolidated statement of total recognised gains and losses, Consolidated balance sheet, Company balance sheet, Consolidated cash flow statement and the related notes numbered 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of directors' responsibilities in relation to the financial statements. The directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

We review whether the Corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's statement, Chief Executive's review, Financial review, Directors' report, Board of directors, unaudited part of the Directors' remuneration report and Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

AUDITORS' REPORT CONTINUED

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2005 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Cambridge

18 May 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2005

	NOTES	2005 ONGOING £000	2005 ACQUISITIONS £000	2005 CONTINUING £000	2004 CONTINUING £000
TURNOVER	2	43,706	13,837	57,543	38,113
Cost of sales	3	(15,008)	(4,071)	(19,079)	(12,588)
GROSS PROFIT		28,698	9,766	38,464	25,525
Other operating expenses	3	(22,372)	(10,297)	(32,669)	(19,388)
OPERATING PROFIT/(LOSS)		6,326	(531)	5,795	6,137
Finance expense (net)	4	(24)	(7)	(31)	(28)
PROFIT/(LOSS) ON ORDINARY ACTIVITES BEFORE TAXATION	5	6,302	(538)	5,764	6,109
Tax on profit/(loss) on ordinary activities	7			(2,882)	(2,199)
PROFIT/(LOSS) ON ORDINARY ACTIVITES AFTER TAXATION, BEING PROFIT FOR THE FINANCIAL YEAR				2,882	3,910
DIVIDENDS PAID AND PROPOSED ON EQUITY SHARES	8			(1,523)	(1,019)
RETAINED PROFIT FOR THE YEAR				1,359	2,891
BASIC EARNINGS PER SHARE	9			13.48p	22.63p
ADJUSTED BASIC EARNINGS PER SHARE	9			36.71p	26.20p
DILUTED EARNINGS PER SHARE	9			13.41p	22.42p
DIVIDEND PER EQUITY SHARE	8			6.1p	5.8p

The accompanying notes are an integral part of this Consolidated profit and loss account.

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 2005

	2005 £000	2004 £000
Profit for the financial year	2,882	3,910
Translation gain/(loss) arising on consolidation	150	(837)
TOTAL RECOGNISED GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT	3,032	3,073

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

CONSOLIDATED BALANCE SHEET

31 MARCH 2005

	NOTES	2005 £000	2004 £000
FIXED ASSETS			
Goodwill	10	26,395	1,313
Other intangible assets	10	1,625	1,977
Intangible assets		28,020	3,290
Tangible assets	11	5,099	5,046
		33,119	8,336
CURRENT ASSETS			
Stocks	13	–	217
Debtors	14	27,391	18,830
Cash at bank and in hand		12,114	8,713
		39,505	27,760
CREDITORS: Amounts falling due within one year	15	(27,368)	(14,150)
NET CURRENT ASSETS		12,137	13,610
TOTAL ASSETS LESS CURRENT LIABILITIES		45,256	21,946
CREDITORS: Amounts falling due after more than one year	16	–	(41)
Provisions for liabilities and charges	18	(1,686)	(335)
NET ASSETS		43,570	21,570
CAPITAL AND RESERVES			
Called-up share capital	19	2,204	1,747
Share premium account	20	24,323	8,210
Merger reserve	20	3,921	–
Profit and loss account	20	13,122	11,613
SHAREHOLDERS' FUNDS – ALL EQUITY	21	43,570	21,570

The accompanying notes are an integral part of this Consolidated balance sheet.

COMPANY BALANCE SHEET

31 MARCH 2005

	NOTES	2005 £000	2004 £000
FIXED ASSETS			
Investments	12	27,482	7,205
CURRENT ASSETS			
Debtors	14	4,114	4,369
Cash at bank and in hand		247	52
		4,361	4,421
CREDITORS: Amounts falling due within one year	15	(948)	(699)
NET CURRENT ASSETS		3,413	3,722
TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS		30,895	10,927
CAPITAL AND RESERVES			
Called-up share capital	19	2,204	1,747
Share premium account	20	24,323	8,210
Merger reserve	20	3,921	–
Profit and loss account	20	447	970
SHAREHOLDERS' FUNDS – ALL EQUITY		30,895	10,927

The accompanying notes are an integral part of this Company balance sheet.

The financial statements were approved by the Board of directors on 18 May 2005 and signed on its behalf by:

R A King

Directors

R Longdon

18 May 2005

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	NOTES	2005 £000	2004 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	11,634	7,880
Returns on investments and servicing of finance	23	(31)	(28)
Taxation	23	(3,159)	(2,006)
Capital expenditure and financial investment	23	(930)	(1,594)
Acquisitions	23	(20,235)	–
Equity dividends paid		(1,274)	(967)
CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(13,995)	3,285
Financing	23	16,420	832
INCREASE IN CASH IN THE YEAR	24	2,425	4,117

The accompanying notes are an integral part of this Consolidated cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

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

b) Basis of consolidation

The group financial statements consolidate the financial statements of AVEVA Group plc and its subsidiary undertakings made up to 31 March each year. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Where the company does not hold a majority shareholding in an investee company, but the directors consider that dominant influence is exercised over its operating and financial policies, the investee company will be treated as a subsidiary for the purposes of consolidation.

No profit and loss account is presented for AVEVA Group plc as provided by Section 230 of the Companies Act 1985. The company's profit after taxation for the financial year, determined in accordance with the Act, was £1,000,000 (2004 – £1,000,000).

c) Intangible assets

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life.

Goodwill arising on acquisitions in the year ended 31 March 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Purchased software rights are capitalised at cost and amortised on a straight line basis over their estimated useful lives.

The carrying value of goodwill and intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

d) Research and development

Research and development expenditure is written off in the year of expenditure.

e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, based on prices prevailing at the date of acquisition, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	-	25%	per annum
Fixtures and fittings and office equipment	-	12-15%	per annum
Motor vehicles	-	25%	per annum

Leasehold buildings are amortised on a straight-line basis over the period of the lease or useful economic life if shorter. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

f) Investments

Fixed asset investments are shown at cost less any provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

g) Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

h) Pension costs

The group operates defined benefit pension schemes in the UK, Sweden and Germany. The UK defined benefit pension scheme, previously available to all UK employees was closed to new applicants in 2002. UK employees are now offered membership of a defined contribution scheme.

The German unfunded defined benefit scheme is closed to new applicants and provides benefits to five deferred members following a acquisition in 1992 by Tribon. No current employees participate in the scheme.

The group provides pension arrangements to its Swedish employees through an industry wide defined benefit scheme. It is not possible to identify the share of the underlying assets and liabilities in the scheme which is attributable to the company on a fair and reasonable basis. Therefore the group has applied the provisions in FRS 17 to account for the scheme as if it was a defined contribution scheme.

Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the group benefits from the employees' services. The effect of variations from regular cost is spread over the expected average remaining service lives of current members of the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries.

The group also operates defined contribution pension schemes for a number of UK and non-UK employees. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

i) Foreign currency

Transactions denominated in foreign currencies are recorded at actual exchange rates as of the date of the transaction, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or where appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas subsidiary undertakings are translated at the average exchange rate during the year, and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas subsidiary undertakings are dealt with through reserves.

j) Turnover

Turnover comprises fees in respect of initial and extension licences, annual licences, and rentals together with income from consultancy and other related services (excluding VAT and similar taxes).

For each revenue stream, no revenue is recognised unless and until:

- a clear contractual arrangement can be evidenced;
- delivery has been made in accordance with that contract;
- if required, contractual acceptance criteria have been met; and
- the fee has been agreed and collectability is probable.

Users can pay an initial licence fee upon installation for a set number of users followed by an obligatory annual fee on each anniversary of installation. Additional users can be licensed at any time on payment of an extension fee similar to the initial and annual fees. The fees cover right to use and post contract support which includes core product enhancements and remote support services.

The fees related to the right to use are recognised once the above conditions have been met. Post contract support fees are recognised rateably over the period of the contract.

As an alternative to the initial/extension licence plus annual fee model, the group also supplies its software under two different types of rental contract.

Rentals which are invoiced monthly and which are cancellable by the customer are recognised on a monthly basis.

Other rental contracts are invoiced at the start of the contracted period, are non-cancellable and consist of two separate components, the right to use and the right for post contract support. Revenue in respect of the right to use is recognised once the above conditions have been met and revenue for post contract support is recognised rateably over the period of the contract.

Income from consultancy and other related services is recognised as the services are provided.

k) Leases

Rentals payable under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Where fixed assets are financed by leasing arrangements which transfer to the group substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

l) Derivative financial instruments

The group uses forward foreign exchange contracts to reduce exposure to foreign exchange risk. The group does not use forward foreign exchange contracts for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency as the hedged item and must also reduce the risk of foreign currency exchange movements on the group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the group's financial statements.

m) Long term contracts

Cumulative costs incurred net of amounts transferred to costs of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the Profit and loss account turnover and related costs as contract activity progresses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 TURNOVER

A geographical analysis of turnover by destination is set out below:

	2005 ONGOING £000	2005 ACQUISITIONS £000	2005 CONTINUING £000	2004 CONTINUING £000
United Kingdom	5,291	285	5,576	3,458
Rest of Europe, Middle East and Africa	16,627	5,742	22,369	16,073
Americas	9,036	311	9,347	9,862
Asia Pacific	12,752	7,499	20,251	8,720
	43,706	13,837	57,543	38,113

No further segmental analysis is given as, in the opinion of the directors, disclosure of this information would be seriously prejudicial to the interests of the group.

3 COST OF SALES AND OTHER OPERATING EXPENSES

Group operating profit for the year was £10.76m (2004 - £6.76m) before exceptional items of £2.29m (2004 - £nil) and goodwill and intangible amortisation of £2.68m (2004 - £0.62m).

Of the total group operating profit before exceptional items and goodwill and intangible amortisation of £10.76m, £7.37m was generated from existing operations and £3.39m was generated from acquisitions.

An analysis of cost and expenses is as follows:

	2005 ONGOING £000	2005 ACQUISITIONS £000	2005 CONTINUING £000	2004 CONTINUING £000
COST OF SALES				
Exceptional items	87	279	366	–
Non-exceptional cost of sales	14,921	3,792	18,713	12,588
	15,008	4,071	19,079	12,588
OTHER OPERATING EXPENSES				
Selling costs	13,944	4,390	18,334	14,367
Exceptional items-selling costs	197	762	959	–
Administrative costs	8,083	4,331	12,414	5,021
Exceptional items-administrative costs	148	814	962	–
	22,372	10,297	32,669	19,388

Exceptional costs

Following the acquisition of Tribon Solutions AB (now renamed AVEVA AB) on 19 May 2004, the group has undertaken a rationalisation of its operations as part of the integration of the two businesses which has involved headcount reductions, reorganisation of operations and office closures. The total exceptional costs incurred in the year were £2,287,000 of which £366,000 is included in cost of sales, £959,000 is included in selling costs and £962,000 is included in administrative expenses. The costs include redundancy, payment in lieu of notice, holiday pay, and office rental and associated costs.

4 FINANCE EXPENSE (NET)

	2005 ONGOING £000	2005 ACQUISITIONS £000	2005 CONTINUING £000	2004 CONTINUING £000
Interest receivable	59	11	70	14,367
Bank interest payable and similar charges	(83)	(18)	(101)	5,021
	(24)	(7)	(31)	19,388

5 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £000	2004 £000
Depreciation of owned tangible fixed assets	1,427	1,025
Depreciation of tangible fixed assets held under finance leases	71	102
Amortisation of purchased software rights	352	352
Amortisation of goodwill	2,331	267
Auditors' remuneration		
- audit (current auditors)	346	216
- non-audit (current auditors)	441	201
- non-audit (previous auditors)	–	19
Research and development costs	11,224	6,858
Operating lease rentals		
- land and buildings	1,245	924
- plant and machinery	432	266
(Profit)/loss on disposal of tangible fixed assets	(35)	7

Fees paid to the auditors disclosed above include £93,000 paid in respect of the acquisition of Tribon Solutions AB. A further £505,000 was paid to another major firm of accountants in relation to due diligence and reporting accountant services. These amounts are partly capitalised within goodwill and partly offset against the share premium account.

6 STAFF COSTS

Staff costs relating to employees (including executive directors) are shown below:

	2005 £000	2004 £000
Wages and salaries	18,143	12,895
Social security costs	2,629	1,717
Other pension costs	2,405	1,601
	23,177	16,213

The average monthly number of persons (including executive directors) employed by the group was as follows:

	2005 NUMBER	2004 NUMBER
Research, development and product support	171	102
Sales, marketing and customer support	214	156
Administration	89	68
	474	326

Directors' remuneration

The disclosure of individual directors' remuneration and interests required by the Companies Act 1985 and those specified for audit by the Listing Rules of the Financial Services Authority are shown in the Directors' remuneration report on pages 26 to 31 and form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The tax charge comprises:

	2005 £000	2004 £000
UK corporation tax	–	945
Adjustments in respect of prior periods	(6)	115
	(6)	1,060
Foreign Tax	2,858	1,243
Adjustments in respect of prior periods	518	33
TOTAL CURRENT TAX	3,370	2,336
DEFERRED TAX		
Origination and reversal of timing differences (note 18)	(488)	(137)
TOTAL TAX ON PROFIT ON ORDINARY ACTIVITIES	2,882	2,199

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2005 £000	2004 £000
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2004 – 30%)	1,729	1,833
Effects of:		
Expenses not deductible for tax purposes	281	86
Amortisation of goodwill arising on acquisition of Tribon Solutions AB	578	–
Irrecoverable withholding tax	562	–
UK research & development tax credit	–	(125)
Depreciation in excess of capital allowances	60	111
Other timing differences - provided	541	–
- unprovided	122	16
Higher tax rates on overseas earnings	251	254
Unrelieved tax losses	(1,266)	13
Adjustments in respect of prior years	512	148
GROUP CURRENT TAX CHARGE FOR YEAR	3,370	2,336

The group's tax rate is higher than the UK tax rate because a significant proportion of its profits are earned overseas and are subject to higher rates of tax. This is expected to continue for the foreseeable future. In addition, goodwill amortisation of £2.1m is not tax deductible.

8 DIVIDENDS PAID AND PROPOSED ON EQUITY SHARES

	2005 £000	2004 £000
Interim dividend paid of 1.8p (2004 - 1.8p) per ordinary share	396	320
Final dividend proposed of 4.3p (2004 – 4.0p) per ordinary share	948	699
Final dividend paid for 2004 in respect of additional shares issued	179	–
	1,523	1,019

9 EARNINGS PER SHARE

The calculations of earnings per share are based on the profit after tax for the year of £2,882,000 (2004 - £3,910,000) and the following weighted average numbers of shares:

	2005 NUMBER	2004 NUMBER
For basic earnings per share	21,387,290	17,281,707
Employee share options	111,882	156,687
For diluted earnings per share	21,499,172	17,438,394

Adjusted basic earnings share is calculated by adding back exceptional costs of £2,287,000 (2004 - £nil) and goodwill and intangible amortisation of £2,683,000 (2004 - £619,000).

The directors believe that adjusted earnings per share provides a more meaningful measurement of performance of the underlying business.

10 INTANGIBLE FIXED ASSETS

GROUP	PURCHASED SOFTWARE RIGHTS £000	GOODWILL £000
COST		
At 1 April 2004	3,523	2,669
Additions	–	27,413
At 31 March 2005	3,523	30,082
AMORTISATION		
At 1 April 2004	1,546	1,356
Charge for the year	352	2,331
At 31 March 2005	1,898	3,687
NET BOOK VALUE		
At 1 April 2004	1,977	1,313
At 31 March 2005	1,625	26,395

Purchased software rights arose on the acquisition of the products 'FOCUS' for £1,700,000 on 13 September 1999, 'VANTAGE' for £1,500,000 on 2 December 1999 and OPE software for £323,000 on 7 September 2000.

Purchased goodwill arose on the acquisition of a trade which included rights to integrate, develop and market 3D design software from AEA Technology on 30 March 1999. The initial cost of goodwill was £2,169,000.

In addition, on 12 November 1998 AVEVA agreed to acquire from the distributor Kyokuto Boeki Kaisha all AVEVA's business in Japan. The goodwill arising on acquisition was £500,000.

Details of the acquisition of Realitywave Inc and Tribon Solutions AB group are set out in note 12. All intangible assets are being amortised over their useful economic life of ten years, with the exception of Realitywave Inc which is being amortised over five years.

The company had no intangible fixed assets in either year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 TANGIBLE FIXED ASSETS

GROUP	LONG LEASEHOLD LAND AND BUILDINGS £000	COMPUTER EQUIPMENT £000	FIXTURES, FITTINGS AND OFFICE EQUIPMENT £000	MOTOR VEHICLES £000	TOTAL £000
COST OR VALUATION					
At 1 April 2004	3,081	6,870	2,413	402	12,766
Acquisition of subsidiary undertakings	–	208	374	–	582
Additions	66	521	371	122	1,080
Disposals	–	(33)	(83)	(167)	(283)
Exchange adjustment	–	(2)	2	(2)	(2)
At 31 March 2005	3,147	7,564	3,077	355	14,143
DEPRECIATION					
At 1 April 2004	264	5,924	1,343	189	7,720
Charge for the year	94	713	610	81	1,498
Disposals	–	(20)	(32)	(116)	(168)
Exchange adjustment	–	(6)	–	–	(6)
At 31 March 2005	358	6,611	1,921	154	9,044
NET BOOK VALUE					
At 1 April 2004	2,817	946	1,070	213	5,046
At 31 March 2005	2,789	953	1,156	201	5,099

The net book value of computer equipment includes an amount of £41,000 (2004 - £112,000) in respect of assets held under finance leases.

The company had no tangible fixed assets.

12 FIXED ASSETS INVESTMENTS
Investments in subsidiary undertakings

COMPANY	£000
COST AND NET BOOK VALUE	
At 1 April 2004	7,205
Additions	20,277
At 31 March 2005	27,482

All subsidiary undertakings have been included in the consolidation.

At 31 March 2005 the group had the following investments, which are held by AVEVA Solutions Limited unless stated:

	COUNTRY OF INCORPORATION OR REGISTRATION	PRINCIPAL ACTIVITY	DESCRIPTION AND PROPORTION OF SHARES AND VOTING RIGHTS HELD
AVEVA Solutions Limited*	Great Britain	Software development and marketing	100% ordinary shares of £1 each
AVEVA Inc	USA	Software marketing	100% common stock of US$1 each
AVEVA GmbH	Germany	Software marketing	100% ordinary shares of Euros 25,565 each
AVEVA SA	France	Software marketing	100% ordinary shares of Euros 30 each
AVEVA East Asia Limited	Hong Kong	Software marketing	100% ordinary shares of HK$1 each
Cadcentre Property Limited	Great Britain	Holding property	100% ordinary shares of £1 each
Cadcentre Pension Trustee Limited	Great Britain	Trustee company	100% ordinary shares of £1 each
AVEVA Engineering IT Limited	Great Britain	Software marketing	100% ordinary shares of £1 each
AVEVA AS	Norway	Training and consultancy	100% ordinary shares of NOK 500 each
AVEVA KK	Japan	Software marketing	100% ordinary shares of 50,000 Yen each
AVEVA Sendirian Berhad****	Malaysia	Software marketing	49% ordinary shares of MYR1 each
AVEVA Asia Pacific Sendirian Berhad	Malaysia	Software marketing	100% ordinary shares of MYR1 each
AVEVA Korea Limited	Korea	Software marketing	100% ordinary shares of KRW500,000 each
AVEVA Managed Services Limited	Great Britain	Consulting & support services	100% ordinary shares of £1 each
Cadcentre Limited*	Great Britain	Consulting & support services	100% ordinary shares of £1 each
AVEVA Consulting Limited*	Great Britain	Consulting & support services	100% ordinary shares of £1 each
AVEVA Information Technology India Private Limited	India	Software marketing	100% ordinary shares of 10 Rupee each
Cadcentre Engineering IT Limited	Great Britain	Software marketing	100% ordinary shares of £1 each
AVEVA Pty Limited	Australia	Software marketing	100% ordinary shares of AUD$1 each
Realitywave Inc**	USA	Software development and marketing	100% of common stock of US$1 each
AVEVA AB (formerly Tribon Solutions AB)	Sweden	Software development and marketing	100% of ordinary shares of SEK10 each
Tribon Solutions GmbH***	Germany	Software marketing	100% of ordinary shares
Tribon Solutions (UK) Limited***	Great Britain	Dormant	100% of ordinary shares of £1 each
Tribon Solutions Korea Limited***	Korea	Software marketing	100% of ordinary shares of KRW100,000 each
Nippon Tribon KK***	Japan	Software marketing	100% of ordinary shares of 50,000 Yen each
Tribon Solutions (SEA) Pte Limited***	Singapore	Software marketing	100% of ordinary shares of $10 each
Tribon dot.com Sweden AB***	Sweden	Dormant	100% of ordinary shares of SEK100 each

* held by AVEVA Group plc
** held by AVEVA Inc
*** held by AVEVA AB
**** AVEVA Sendirian Berhad has been consolidated on the basis that the group exercises dominant influence over its financial and operating policies under the terms of the shareholders' agreement.

On 31 December 2004 Tribon Solutions Inc was dissolved and transferred its trade and assets to AVEVA Inc.
On 31 December 2004 Tribon Solutions (UK) Limited transferred its trade and assets to AVEVA Solutions Limited.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 FIXED ASSETS INVESTMENTS CONTINUED

ACQUISITION OF TRIBON SOLUTIONS AB

On 21 April 2004 the company signed an agreement conditional upon shareholder approval to acquire the entire issued share capital of Tribon Solutions AB, a Swedish group which develops, markets and supports software solutions for use in the design and production processes in marine industry all over the world. The total consideration for the acquisition was £20,277,000, £14,997,000 of which was satisfied in cash, £4,000,000 was satisfied through the issue of 789,655 ordinary shares of 10p each to the vendors and costs of £1,280,000 which were incurred in relation to the acquisition. The goodwill is being amortised over ten years.

At an Extraordinary General Meeting held on 14 May 2004, a special resolution was passed to approve the acquisition and the transaction completed on 19 May 2004.

The investment in Tribon Solutions AB group has been included at its fair value in the Company balance sheet at the date of the acquisition, which was 19 May 2004.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	BOOK VALUE £000	ACCOUNTING POLICY ALIGNMENT £000	OTHER ADJUSTMENTS £000	FAIR VALUE £000
FIXED ASSETS				
Intangible	3,008	(3,008)(i)	–	–
Tangible	575	–	–	575
Other assets	105	–	–	105
CURRENT ASSETS				
Debtors	4,961	(972)(ii)	(542)(iii)	3,447
Cash	708	–	–	708
Total assets	9,357	(3,980)	(542)	4,835
CREDITORS				
Bank overdraft	1,498	–	–	1,498
Accounts payable	307	–	–	307
Other creditors	157	–	653 (iv)	810
Accruals and deferred income	4,862	–	20 (v)	4,882
PROVISIONS				
Pensions	608	–	312 (vi)	920
TOTAL LIABILITIES	7,432	–	985	8,417
NET ASSETS/(LIABILITIES)	1,925	(3,980)	(1,527)	(3,582)
Goodwill arising on acquisition				23,859
				20,277
SATISFIED BY:				
Cash				14,997
Fair value of shares issued				4,000
Costs associated with acquisition				1,280
				20,277

ADJUSTMENTS

i change in accounting policy for internal capitalised development costs
ii change in revenue recognition for two specific contracts
iii write down of debtors following reassessment of specific bad debt provision
iv provision for additional potential tax liabilities
v adjustment to accruals
vi adjustment to pension scheme liability provision

AVEVA AB group earned a profit after tax of £2,433,000 in the fifteen months ended 31 March 2005 (year ended 31 December 2003 - £564,000) including a loss of £2,275,000 which arose in the period from 1 January 2004 to 19 May 2004. The summarised profit and loss account for the period from 1 January 2004 to 19 May 2004 is as follows:

	£000
Turnover	4,004
Operating loss	(807)
Loss before tax	(1,317)
Taxation	(958)
Loss for the period	(2,275)

There were no recognised gains or losses in the period other than the profit shown above.

AVEVA AB group utilised £433,000 of the group's operating cash flows, paid £134,000 in respect of net returns on investments and servicing of finance, paid tax of £152,000, utilised £59,000 for capital expenditure and financial investment and generated £2,263,000 from financing.

ACQUISITION OF REALITYWAVE INC

On 31 March 2005 the group completed the acquisition of Realitywave Inc, a software development company based in Boston, Massachusetts, USA. The consideration was £3,192,000 consisting of cash of £3,140,000 and costs of acquisition of £52,000, which resulted in goodwill of £3,554,000 arising. The goodwill is being amortised over five years.

The following table sets out the book values of the identifiable assets and liabilities acquired to the group. There were no fair value adjustments to the Realitywave Inc balance sheet as the fair value of assets and liabilities was deemed to equate to book value:

	BOOK AND FAIR VALUE £000
FIXED ASSETS	
Tangible	7
CURRENT ASSETS	
Debtors	24
Cash	23
Total assets	54
CREDITORS	
Accruals	273
Deferred revenue	143
TOTAL LIABILITIES	416
NET LIABILITIES	(362)
Goodwill arising on acquisition	3,554
	3,192
SATISFIED BY:	
Cash	3,140
Costs associated with acquisition	52
	3,192

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 STOCKS

	2005 GROUP £000	2005 COMPANY £000	2004 GROUP £000	2004 COMPANY £000
Net cost	–	–	217	–

14 DEBTORS

	2005 GROUP £000	2005 COMPANY £000	2004 GROUP £000	2004 COMPANY £000
Amounts falling due within one year:				
Trade debtors	22,503	–	14,391	–
UK corporation tax receivable	396	–	–	–
Overseas tax receivable	353	–	–	–
Amounts owed by group undertakings	–	4,114	–	4,369
Prepayments and other debtors	1,963	–	4,127	–
Accrued income	2,023	–	312	–
Deferred tax asset (see note 18)	153	–		–
	27,391	4,114	18,830	4,369

15 CREDITORS

	2005 GROUP £000	2005 COMPANY £000	2004 GROUP £000	2004 COMPANY £000
Amounts falling due within one year:				
Bank overdraft	903	–	–	–
Obligations under finance leases (note 17)	41	–	71	–
Trade creditors	1,197	–	796	–
UK corporation tax payable	–	–	292	–
Overseas tax payable	2,293	–	469	–
Social security, PAYE and VAT	2,806	–	1,194	–
Other creditors	300	–	98	–
Accruals	7,657	–	4,529	–
Deferred income	11,223	–	6,002	-
Proposed dividend	948	948	699	699
	27,368	948	14,150	699

The bank overdraft is secured by a floating charge over certain of the group's assets.

16 CREDITORS

	2005 GROUP £000	2005 COMPANY £000	2004 GROUP £000	2004 COMPANY £000
Amounts falling due after more than one year:				
Obligations under finance leases, due within one to two years (note 17)		–	41	–

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 "Derivatives and other financial instruments: Disclosures". Certain financial assets such as investments in subsidiaries are excluded from the scope of these disclosures.

The group's financial instruments comprise cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations. As permitted by FRS 13, short-term debtors and creditors have also been excluded from the disclosures (except as indicated below).

It is, and has been, throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing such risks on a regular basis as summarised below.

Interest rate and liquidity risks

The group holds net funds, and hence its interest rate risk and liquidity risk are associated with short-term cash deposits. The group's overall objective with respect to holding these deposits is to maintain a balance between accessibility of funds and competitive rates of return. In practice this has meant that no deposits have been made with a maturity date greater than three months in the course of the year.

Foreign currency risk

Foreign currency risk arises from the group undertaking a significant number of foreign currency transactions in the course of operations. Where such transactions are material, the board has a policy of entering into foreign currency contracts or currency matching to help manage currency risk. The group's objectives in managing the currency exposure arising from its net investments overseas are to maintain a low cost of borrowing, and to retain some potential for currency related appreciation, while partially hedging against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the consolidated statement of total recognised gains and losses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS CONTINUED

Interest rate profile of financial assets

The group has financial assets denominated in both sterling and foreign currency deposits. These comprise cash balances, overdrafts and deposits at short-term rates.

	2005			2004		
	FLOATING RATE FINANCIAL ASSETS £000	FINANCIAL ASSETS ON WHICH NO INTEREST IS EARNED £000	TOTAL £000	FLOATING RATE FINANCIAL ASSETS £000	FINANCIAL ASSETS ON WHICH NO INTEREST IS EARNED £000	TOTAL £000
Sterling	(931)	93	(838)	721	–	721
US Dollar	2,156	263	2,419	1,060	–	1,060
Euro	4,466	3	4,469	3,818	–	3,818
Japanese Yen	1,342	520	1,862	1,466	–	1,466
Norwegian Kroner	167	–	167	151	–	151
Korean Won	2,432	–	2,432	904	–	904
Malaysian Ringgit	383	–	383	246	–	246
Indian Rupee	68	–	68	180	–	180
Australian Dollar	893	–	893	71	–	71
Swedish Kroner	14	23	37	–	25	25
Chinese Yuan Reminbi	121	12	133	–	–	–
Hong Kong Dollar	–	25	25	–	35	35
Other currencies	5	59	64	–	36	36
Total	11,116	998	12,114	8,617	96	8,713

Interest rate profile of financial liabilities

	2005			2004		
	FLOATING RATE £000	FIXED RATE £000	TOTAL £000	FLOATING RATE £000	FIXED RATE £000	TOTAL £000
Swedish Kroner	903	–	903	–	–	–
Sterling	–	41	41	–	112	112
	903	41	944	–	112	112

The interest rate on floating rate financial assets is linked to the base rate of the relevant country.

The floating rate financial liability for 2005 comprised a Swedish bank overdraft facility bearing interest at 3.23%.
The fixed rate financial liability comprises two finance leases with weighted average interest rate of 12% (2004 – 12%).

	2005 £000	2004 £000
The maturity profile of the group's financial liabilities is as follows:		
In one year or less, or on demand	41	71
Between one and two years	–	41
	41	112

Currency exposures
The table below shows the group's transactional currency exposures that give rise to the net currency gains and losses recognised in the Profit and loss account. Such exposures comprise the monetary assets and liabilities of the group that are not denominated in the functional currency of the operating unit. As at 31 March 2005 and 31 March 2004 these exposures (including those arising on short-term debtors and creditors) were as follows:

FUNCTIONAL CURRENCY OF GROUP OPERATION	NET FOREIGN CURRENCY MONETARY ASSETS/(LIABILITIES)							
	GBP £000	US$ £000	EURO £000	SEK £000	SNG$ £000	JPY £000	AUS$ £000	TOTAL £000
2005								
Sterling	–	1,875	805	–	–	563	–	3,243
Korean Won	–	949	–	473	–	–	–	1,422
Malaysian Ringgit	–	684	246	–	10	–	–	940
Swedish Kroner	(103)	398	3,420	–	–	(74)	–	3,641
	(103)	3,906	4,471	473	10	489	–	9,246
2004								
Sterling	–	1,188	418	–	–	–	–	1,606
Malaysian Ringgit (MYR 000's)	–	118	–	–	7	–	48	173
	–	1,306	418	–	7	–	48	1,779

Borrowing facilities
The group had committed a UK borrowing overdraft facility and revolving loan facility at 31 March 2005 of £3,000,000 and £3,000,000 respectively (2004 - £1,500,000 and nil) of which £1,179,000 of the overdraft had been drawn down at 31 March 2005. The group has right of offset against cash balances held. In addition the group had a committed overdraft facility of SEK30m (£2.3m) at 31 March 2005 of which £903,000 had been drawn down. All conditions precedent in respect of the overdrafts and loan had been met.

Fair values
The book values of the group's financial assets and liabilities consist of cash of £12,114,000 (2004 - £8,713,000), overdraft of £903,000 (2004 – £nil) and finance leases of £41,000 (2004 - £112,000).

There is no material difference between the book value and fair value of the group's financial instruments in the current or the preceding year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS CONTINUED

Gains and losses on hedges

The group enters into forward foreign currency contracts to minimise the currency exposures that arise on sales denominated in foreign currencies. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedge position matures. No material unrecognised gains or losses on hedged financial instruments existed at 31 March 2005 or 31 March 2004.

As at 31 March 2005 there was a forward contract in the UK to sell USD 1,000,000 on 30 June 2005. This contract was entered into to hedge against debtors denominated in USD in the UK at that date.

Additionally, as at 31 March 2005 there were forward contracts in Sweden to sell USD 554,000 and EUR 2,240,000 on 15 April 2005, to sell USD 510,500 and EUR 500,000 on 17 May 2005, and to sell EUR 592,000 on 15 June 2005. These contracts were entered into to hedge trade debtors denominated in USD and EUR in Sweden at that date. The balance of the forward contracts was held to hedge USD and EUR income expected to arise from recurring revenues over the period to 30 June 2005.

The directors consider these to qualify for hedge accounting since the following criteria are met:

- the instruments are related to foreign exchange existing assets or probable future income whose characteristics have been identified;
- they involve the same currency as the hedged item; and
- they reduce the risk of foreign currency exchange movements to the group operations.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	RETIREMENT PROVISIONS £000	RESTRUCTURING PROVISION £000	DEFERRED TAX £000	GROUP £000
At 1 April 2004	–	–	335	335
Acquisitions	920	–	–	920
Charged/(credited) to profit and loss account	211	2,287	(488)	2,010
Utilised	(287)	(1,463)	–	(1,750)
Exchange adjustment	18	–	–	18
At 31 March 2005	862	824	(153)	1,533
At 31 March 2005 - provision	862	824	–	1,686
At 31 March 2005 – asset (see note 14)	-	-	(153)	(153)

DEFERRED TAX

	2005 PROVIDED £000	2004 PROVIDED £000	2005 UNPROVIDED £000	2004 UNPROVIDED £000
Analysis of deferred tax liability/(asset):				
Accelerated capital allowances	161	365	–	–
Short term timing differences	(314)	(30)	(762)	–
Tax losses	–	–	(1,834)	(13)
	(153)	335	(2,596)	(13)

RETIREMENT PROVISIONS

Provisions for liabilities and charges includes provisions for the overseas retirement schemes in Sweden, Germany and Korea as described in note 25(a)(iii).

RESTRUCTURING PROVISION

The restructuring provision includes the cost of rationalising the operations of the AVEVA AB group following the acquisition on 19 May 2004. The provision includes costs for headcount reductions, reorganisation of operations and office closures. It is expected that the costs will all be incurred within two years of the balance sheet date.

In addition, if the long leasehold property were to be sold at its current net book value, a tax liability of up to £269,000 (2004 – £269,000) may arise. No provision has been made for this liability as there is no intention to dispose of the property. If the property were to be sold in the future, the tax liability would probably be mitigated or deferred by available reliefs.

The company has no deferred tax liability.

19 CALLED-UP SHARE CAPITAL

GROUP AND COMPANY	2005 £000	2004 £000
Authorised		
30,000,000 (2004 - 22,000,000) ordinary shares of 10p each	3,000	2,200
Allotted, called-up and fully paid		
22,036,617 (2004 – 17,470,300) ordinary shares of 10p each	2,204	1,747

On 14 May 2004 the authorised share capital was increased to £3,000,000 by the creation of 8,000,000 ordinary shares of 10p each.

In order to finance the cash consideration for the acquisition of Tribon Solutions AB (now AVEVA AB) and expenses related thereto, the company raised cash of £17,241,000, (before expenses of £2,565,000 of which £1,256,000 has been offset against share premium) pursuant to a Placing and Open Offer of 3,645,112 ordinary shares of 10p each. An additional 789,655 ordinary shares of 10p each were issued to the vendors as part of the consideration with a fair value of £4,000,000. In addition, during the year 131,550 ordinary shares with a nominal value of £13,155 were issued following the exercise of employee share options of 40,000 at an exercise price of 524.7p per share, 10,000 at an exercise price of 491.8p per share, 3,000 at an exercise price of 479.5p per share, 7,200 at an exercise price of 395.0p per share, 14,950 at an exercise price of 342.5p per share, 30,000 at an exercise price of 309.5p per share, 25,000 at an exercise price of 230.0p per share and 1,400 at an exercise price of 179.2p per share. This resulted in proceeds of £505,948 including a premium of £492,793.

Share options

Share options have been granted to certain employees of the group and remain outstanding as follows:

DATE OF GRANT	NUMBER OF OPTIONS	EXERCISE PRICE(p)
16 March 1999	4,000	179.2
30 March 2000	30,400	342.5
19 January 2001	317,300	524.7
12 July 2001	101,800	479.5
6 August 2001	25,000	463.3
1 July 2004	30,000	10.0

These options are normally exercisable in full or in part between the third and seventh anniversaries of the date of grant.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 RESERVES

GROUP	MERGER RESERVE £000	SHARE PREMIUM ACCOUNT £000	PROFIT AND LOSS ACCOUNT £000
At 1 April 2004	–	8,210	11,613
Profit for the year	–	–	2,882
Dividends	–	–	(1,523)
Translation arising on consolidation	–	–	150
Share issues	3,921	16,113	–
At 31 March 2005	3,921	24,323	13,122

Included within profit and loss account reserves is goodwill of £3,934,000 which was directly eliminated against reserves in 1995 (2004 - £3,934,000).

COMPANY	MERGER RESERVE £000	SHARE PREMIUM ACCOUNT £000	PROFIT AND LOSS ACCOUNT £000
At 1 April 2004	–	8,210	970
Share issues	3,921	16,113	–
Profit for the year	–	–	1,000
Dividends	–	–	(1,523)
At 31 March 2005	3,921	24,323	447

21 RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2005 £000	2004 £000
Profit for the financial year	2,882	3,910
Other recognised gains and losses relating to the year	150	(837)
	3,032	3,073
Dividends paid and proposed on equity shares	(1,523)	(1,019)
New shares issued	20,491	934
Net addition to shareholders' funds	22,000	2,988
Opening shareholders' funds	21,570	18,582
Closing shareholders' funds	43,570	21,570

22 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005 £000	2004 £000
Operating profit	5,795	6,137
Depreciation and amortisation charges	4,181	1,746
(Profit)/loss on disposal of fixed assets	(35)	7
Decrease in stocks	217	541
Increase in debtors	(4,097)	(4,677)
Increase in creditors	4,717	4,126
Increase in provisions	856	–
NET CASH INFLOW FROM OPERATING ACTIVITIES	11,634	7,880

23 ANALYSIS OF CASH FLOWS

	2005 £000	2004 £000
Returns on investments and servicing of finance		
Interest received	70	61
Interest paid	(101)	(89)
NET CASH OUTFLOW	(31)	(28)
Taxation		
UK corporation tax (paid)/received	(784)	55
Foreign tax paid	(2,375)	(2,061)
NET CASH OUTFLOW	(3,159)	(2,006)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,080)	(1,763)
Proceeds from sale of tangible fixed assets	150	169
NET CASH OUTFLOW	(930)	(1,594)
Acquisitions		
Purchase of subsidiary undertakings	(19,468)	–
Net overdraft acquired with subsidiary undertaking	(767)	–
NET CASH OUTFLOW	(20,235)	–
Financing		
Issue of ordinary share capital	16,491	934
Capital element of finance lease rental payments	(71)	(102)
NET CASH INFLOW	16,420	832

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 ANALYSIS AND RECONCILIATION OF NET FUNDS

	1 APRIL 2004 £000	CASH FLOW £000	EXCHANGE DIFFERENCES £000	31 MARCH 2005 £000
Cash at bank and in hand	8,713	3,317	84	12,114
Bank overdraft	–	(892)	(11)	(903)
Cash	8,713	2,425	73	11,211
Finance leases	(112)	71	–	(41)
NET FUNDS	8,601	2,496	73	11,170

	2005 £000	2004 £000
Increase in cash in the year	2,425	4,117
Cash outflow from decrease in lease financing	71	102
Change in net funds resulting from cash flows	2,496	4,219
Currency translation differences	73	(334)
Movement in net funds in year	2,569	3,885
Net funds at start of the year	8,601	4,716
Net funds at end of the year	11,170	8,601

Major non-cash transactions
In connection with the acquisition of AVEVA AB, 789,655 ordinary shares of 10p each were issued as part of the consideration (see note 12).

Exceptional items
Net cash inflow from operating activities includes cash outflows of £1,463,000 in respect of restructuring costs.

25 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) Pension arrangements
(i) UK defined benefit scheme
SSAP24 disclosures

The group operates a UK defined benefit pension plan providing benefits based on final pensionable pay. This scheme was closed to new employees on 30 September 2002 (with the option of re-opening if required) and was converted to a Career Average Revalued Earnings basis on 30 September 2004. Administration on behalf of the members is governed by a Trust Deed, and the funds are held and managed by professional investment managers who are independent of the group.

Contributions to the scheme are made in accordance with advice from an independent professionally qualified actuary at rates which are calculated to be sufficient to meet the future liabilities of the scheme. The employees' contributions are fixed as a percentage of salary, the balance being made up by the employer.

The most recent actuarial valuation was carried out as at 1 April 2004 using the projected unit method with a three year control period. Under this method the current service cost will increase as members approach retirement age.

The valuation for SSAP 24 purposes was carried out at a later date to that used for the FRS 17 valuation at 31 March 2004 and included assets and liabilities transferred in from a third party pension scheme in July 2004 relating to an acquisition in 1999 following final agreement of the transfer value.

The assets of the scheme were taken into account at a market value. Consistent with this, the liabilities were valued using financial assumptions derived from yields on index-linked and fixed interest government securities.

In particular, the main actuarial assumptions were that:

a) the return on scheme investments would be 5.75% per annum;
b) future inflation would be 2.75% per annum;
c) pensions in payment earned from 6 April 1997 would increase by 2.75% per annum.

The deficit identified at the 2004 valuation, amounting to £4,158,000, is expected to be eliminated over the period to 2020 through increased employer contributions.

The market value of the assets of the scheme was £17,974,000 and represented 81% of the benefits that had accrued to members after allowing for expected future increases in benefits.

The pension charge for the defined benefit schemes in the UK amounted to £1,127,000 (2004 - £1,137,000).

FRS 17 disclosures
Additional disclosures regarding the group's UK defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 1 April 2004, as updated to 31 March 2005 by a qualified independent actuary, to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2005 and 2004. Scheme assets are stated at their market values at the respective balance sheet dates.

	2005 %	2004 %	2003 %
Main assumptions:			
Rate of salary increases	4.75	4.75	4.50
Rate of increase of pensions in payment	2.75	2.75	2.50
Rate of increase of pensions in deferment	2.75	2.75	2.50
Discount rate	5.40	5.50	5.50
Inflation assumption	2.75	2.75	2.50

The assets and liabilities of the scheme and the expected rates of return at 31 March 2005 are:

	2005		2004		2003	
	LONG-TERM RATE OF RETURN EXPECTED %	VALUE £000	LONG-TERM RATE OF RETURN EXPECTED %	VALUE £000	LONG-TERM RATE OF RETURN EXPECTED %	VALUE £000
Equities	6.70	17,100	6.70	14,300	6.60	10,300
Bonds	4.70	1,700	3.70	1,500	3.60	1,700
Properties	6.70	100	–	–	–	–
Other	3.75	1,700	3.00	700	2.75	600
Total market value of assets		20,600		16,500		12,600
Present value of scheme liabilities		(25,500)		(25,000)		(25,000)
Pension liability before deferred tax		(4,900)		(8,500)		(12,400)
Related deferred tax asset		1,500		2,600		3,700
Net pension liability		(3,400)		(5,900)		8,700

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

An analysis of the defined benefit cost for the year ended 31 March 2005 is as follows:

	2005 £000	2004 £000
Current service cost	1,300	1,400
Past service credit	(3,100)	–
Total operating charge	(1,800)	1,400
Expected return on pension scheme assets	1,100	800
Interest on pension scheme liabilities	(1,300)	(1,400)
Total other finance cost	(200)	(600)
Actual return less expected return on pension scheme assets	700	2,000
Experience gains and losses on liabilities	800	–
Changes in assumptions	(600)	2,800
Actuarial gain recognised in the statement of total recognised gains and losses	900	4,800

	2005 £000	2004 £000
Analysis of movements in the deficit during the year:		
At 1 April 2004	(8,500)	(12,400)
Current service costs	(1,300)	(1,400)
Total other finance cost	(200)	(600)
Actuarial gain	900	4,800
Past service credit	3,100	–
Contributions	1,100	1,100
At 31 March 2005	(4,900)	(8,500)

The scheme became a Career Average Revalued Earning Scheme on 1 October 2004. Member contributions also increased at this date from 5.25% to 7.5% of pensionable salary. The company contributions remained at 18.5% of pensionable salary.

History of experience gains and losses:

	2005	2004	2003
Difference between expected return and actual return on pension scheme assets:			
– amount (£000)	700	2,000	(5,000)
– % of scheme assets	3%	12%	(40%)
Experience gains arising on scheme liabilities:			
– amount (£000)	800	–	–
– % of the present value of scheme liabilities	3%	–	–
Total actuarial gain/(loss) recognised in the Statement of total recognised gains and losses:			
– amount (£000)	900	4,800	(8,400)
– % of the present value of scheme liabilities	4%	19%	(34%)

Reconciliation of net assets and reserves under FRS 17:

NET ASSETS - GROUP	2005 £000	2004 £000
Net assets as stated in the balance sheet	43,570	21,570
FRS 17 defined benefit liabilities	(3,400)	(5,900)
Net assets including defined benefit liabilities	40,170	15,670

RESERVES - GROUP	2005 £000	2004 £000
Profit and loss reserve as stated in the balance sheet	13,122	11,613
FRS 17 defined benefit liabilities	(3,400)	(5,900)
Profit and loss reserve including amounts relating to defined benefit liabilities	9,722	5,713

(ii) Defined contribution schemes
The group also operates defined contribution schemes for UK, Swedish, US, German, French, Norwegian and Asian Pacific employees for which the pension charge for the year amounted to £1,261,000 (2004 - £438,000).

(iii) Overseas retirement schemes
The group operates the following overseas retirement schemes:

Sweden
All Swedish employees employed by AVEVA AB aged twenty-eight or over are members of the "ITP", an industry scheme for salaried employees which provides benefits in addition to the state pension arrangements. The ITP scheme is managed by Alecta, a Swedish insurance company. It is a multi-employer defined benefit scheme with a supplementary defined contribution component. AVEVA AB pays monthly premiums to the insurers which vary by age, service and salary of the employee. AVEVA AB is unable to identify its share of the underlying assets and liabilities in the scheme and therefore has accounted for the scheme as if it was a defined contribution pension scheme. At 31 March 2005, Alecta's surplus in the form of collective funding level was 131%.

Historically AVEVA AB did not finance ITP benefits through insurance companies. Instead the benefits were unfunded and were financed by a combination of book reserves and re-insurance. These liabilities relate to certain historically earned benefits and are being gradually transferred to Alecta over the period to February 2006. The book reserves are maintained and calculated by the Pension Regulation Institute. The provision at 31 March 2005 was £226,000, which has been included in provisions for liabilities and charges on the balance sheet (see note 18).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

South Korea

South Korean employees are entitled to a lump sum on retirement or termination of employment equal to one month's salary for each year of service. All employees are eligible. At 31 March 2005 the provision was £232,000, which has been included in provisions for liabilities and charges on the balance sheet (see note 18).

Germany

Tribon Solutions GmbH operates an unfunded defined benefit scheme that provides benefits to five deferred members following an acquisition in 1992. No current employees participate in the scheme and it is closed to new applicants. The scheme is financed by book reserves and benefit payments are made as they fall due. An FRS 17 valuation of the pension liability has been carried out using the following assumptions:

Rate of increase of pensions in payment	0%
Discount rate	5.5%
Inflation assumption	0%

The service cost and interest cost for the period from date of acquisition (19 May 2004) to 31 March 2005 was £nil and £17,000 respectively. The FRS 17 valuation of pension liability at 31 March 2005 was £404,000 which has been included in provisions for liabilities and charges on the balance sheet (see note 18).

b) Lease commitments

At 31 March 2005 the group had annual commitments under non-cancellable operating leases as follows:

	2005		2004	
	LAND AND BUILDINGS £000	PLANT AND MACHINERY £000	LAND AND BUILDINGS £000	PLANT AND MACHINERY £000
Expiring within one year	234	47	416	203
Expiring between two and five years	743	219	104	44
Expiring in more than five years	–	–	327	–
	977	266	847	247

c) Capital commitments

At the end of the year the group and company had capital commitments contracted for but not provided for of £23,000 (2004 - £123,000).

26 RELATED PARTY TRANSACTIONS

There were no transactions with related parties in either year that require disclosure within these financial statements.

FIVE YEAR RECORD

	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
Summarised consolidated results:					
Turnover	57,543	38,113	36,008	31,818	28,100
Gross profit	38,464	25,525	22,961	20,230	19,061
Operating profit before amortisation and exceptional items	10,765	6,756	6,237	5,561	5,759
Exceptional items	(2,287)	–	–	–	–
Intangible asset amortisation	(2,683)	(619)	(619)	(637)	(602)
Operating profit	5,795	6,137	5,618	4,924	5,157
Taxation	(2,882)	(2,199)	(1,922)	(1,573)	(1,722)
Profit for the financial year	2,882	3,910	3,658	3,365	3,503
Earnings per share	13.48p	22.63p	21.46p	19.82p	20.80p
Adjusted earnings per share	36.71p	26.20p	25.10p	23.57p	24.38p
Total dividend per share	6.1p	5.8p	5.6p	5.4p	5.4p
Summarised consolidated balance sheet:					
Fixed assets	33,119	8,336	8,583	8,307	8,652
Cash and liquid resources	11,211	8,713	4,930	6,356	5,620
Net current assets	12,137	13,610	10,583	8,523	5,668
Shareholders funds: all equity	43,570	21,570	18,582	16,297	13,730

COMPANY INFORMATION AND ADVISORS

DIRECTORS	Richard King CBE *Chairman*
	Richard Longdon *Chief Executive*
	Paul Taylor *Finance Director*
	Colin Garrett *Non-Executive Director*
	David Mann *Non-Executive Director*
SECRETARY	Paul Taylor
REGISTERED OFFICE	High Cross Madingley Road Cambridge CB3 0HB
REGISTERED NUMBER	2937296
AUDITORS	Ernst & Young LLP Compass House 80 Newmarket Road Cambridge CB5 8DZ
BANKERS	Barclays Bank plc 15 Bene't Street Cambridge CB2 3PZ
LAWYERS	Ashurst Broadwalk House 5 Appold Street London EC2A 2HA
	Mills and Reeve Francis House 112 Hills Road Cambridge CB2 1PH
STOCKBROKER AND FINANCIAL ADVISORS	Hoare Govett Ltd 250 Bishopsgate London EC2M 4AA
REGISTRARS	Capita Registrars Bourne House 34 Beckenham Road Beckenham, Kent BR3 4TU

GLOBAL LOCATIONS

Locations

- Bangalore, India
- Calgary, Canada
- Cambridge, UK
- Dubai, UAE
- Frankfurt, Germany
- Genova, Italy
- Guangzhou, China
- Hamburg, Germany
- Hong Kong
- Houston, USA
- Kil, Sweden
- Kuala Lumpur, Malaysia
- Lyon, France
- Lysaker, Norway
- Malmö, Sweden
- Manchester, UK
- Osaka, Japan
- Paris, France
- Perth, Australia
- Portsmouth, UK
- Saudi Arabia
- Seoul, Korea
- Shanghai, China
- Sheffield, UK
- Singapore
- Stavanger, Norway
- Wilmington, USA
- Yokohama, Japan

AVEVA