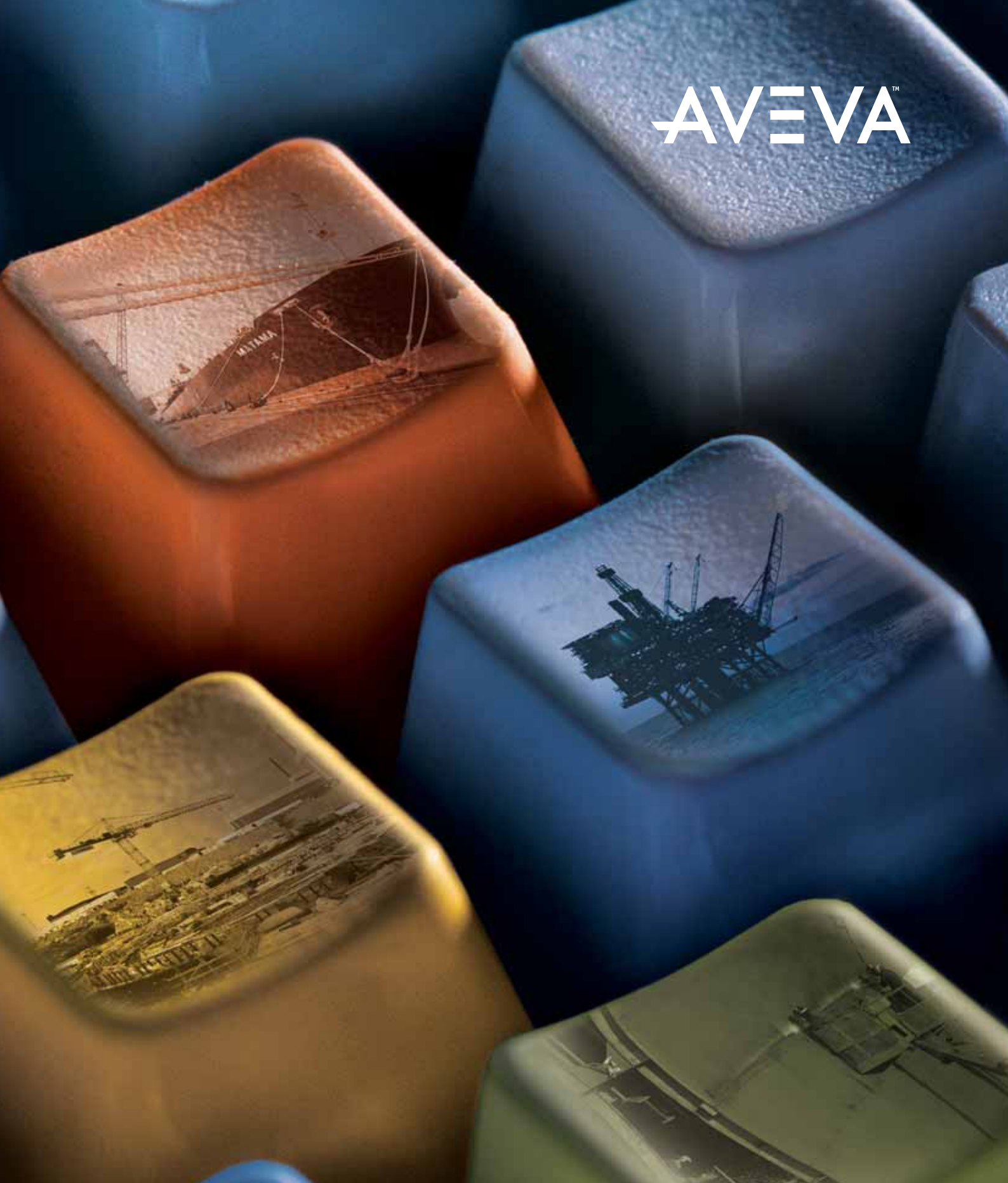




AVEVA™



Annual Report

2006

CONTENTS

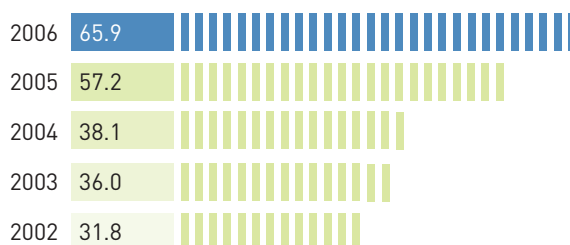
- 00 Highlights
- 02 Group Overview
- 04 Chairman's Statement
- 06 Chief Executive's Review
- 17 Corporate Social Responsibility Report
- 18 Financial Review
- 20 Board of Directors

HIGHLIGHTS

- **Another record year of revenue, profit and cash growth**
- **Revenues up 15% to £65.9 million (2005 - £57.2 million)**
- **Recurring revenues up 26% at £40.9 million (2005 - £32.4 million) - now account for 62% of total revenue (2005 - 57%)**
- **Adjusted profit from operations before amortisation, goodwill adjustment, restructuring costs and past service credit up 36% to £13.9 million (2005 - £10.2 million)**
- **Adjusted earnings per share up 74% to 48.44p (2005 - 27.86p)**
- **Profit from operations £11.2 million (2005 - £9.4 million)**
- **Basic earnings per share up 52% to 36.41p (2005 - 23.91p)**
- **Strong cash flow with net cash at the year end of £23.5 million (2005 - £11.2 million)**
- **Increased final dividend of 5.2p (2005 - 4.3p) bringing the full year dividend to 7.4p (2005 - 6.1p) - an increase of 21%**
- **Strong performance across all regions and our key markets of oil and gas, power and marine**
- **Development and expansion of our VANTAGE suite of solutions generating new customer leads and expanding sales to existing customers**
- **Proposed three-for-one share split**

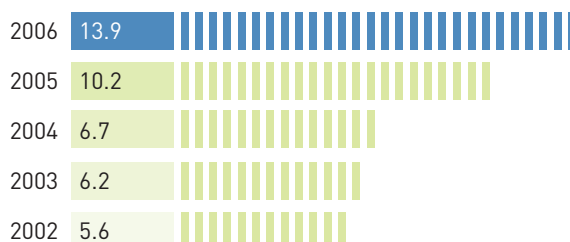
£65.9m*

REVENUES (£m)



£13.9m*

ADJUSTED PROFIT FROM OPERATIONS, BEFORE AMORTISATION OF INTANGIBLE ASSETS, GOODWILL ADJUSTMENT, RESTRUCTURING COSTS AND PAST SERVICE CREDIT ITEMS (£m)



21	Directors' Report	37	Consolidated Balance Sheet
24	Corporate Governance Statement	38	Consolidated Cash Flow Statement
27	Directors' Remuneration Report	39	Notes to the Financial Statements
32	Statement of Directors' Responsibilities	88	Company Balance Sheet - UK GAAP
33	Auditors' Report	89	Notes to the Financial Statements - UK GAAP
35	Consolidated Income Statement	93	Auditors' Report
36	Consolidated Statement of Recognised Income and Expenses	95	Five Year Record
		96	Company Information and Advisors

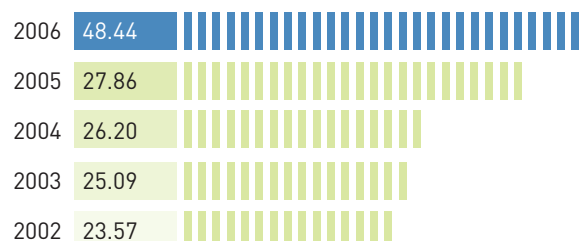
Nick Prest, Chairman, commented:

“AVEVA CONTINUES TO BE AT THE FOREFRONT OF TECHNOLOGICAL IMPROVEMENTS THAT SUPPORT THE CREATION AND OPERATION OF MAJOR CAPITAL ASSETS SUCH AS POWER AND PROCESS PLANTS AND NAVAL AND COMMERCIAL SHIPS. THE MARINE, OIL AND GAS AND POWER SECTORS WE OPERATE WITHIN ARE FORECAST TO CONTINUE TO ENJOY GOOD LEVELS OF LONG-TERM GROWTH. IN ADDITION, OUR CUSTOMER BASE AND OUR EXPOSURE TO HIGH GROWTH EMERGING ECONOMIES ARE INCREASING.

AS A RESULT, THE BOARD BELIEVES THAT THE OUTLOOK FOR THE BUSINESS CONTINUES TO BE POSITIVE FOR THIS YEAR AND BEYOND.”

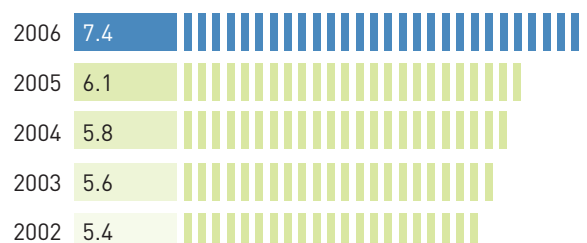
48.44p*

ADJUSTED EARNINGS PER SHARE (pence)



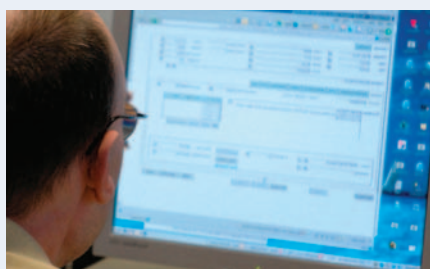
7.4p*

TOTAL DIVIDENDS PER SHARE (pence)



*Years 2002 - 2004 have been prepared under UK GAAP, years 2005 and 2006 have been prepared under IFRS.

GROUP OVERVIEW



AVEVA GROUP PLC IS A WORLD LEADER PROVIDING SOFTWARE AND SERVICES FOR DESIGN AND DESIGN MANAGEMENT IN THE PROCESS AND MARINE INDUSTRIES. FROM ITS ORIGINS AS ONE OF THE FOUNDING NAMES IN THE SOFTWARE INDUSTRY THE COMPANY HAS GROWN ORGANICALLY AND THROUGH SUCCESSFUL ACQUISITIONS INTO THE LEADER IN ITS FIELDS. PRODUCTS AND SERVICES ARE PROVIDED TO ITS GLOBAL CUSTOMER BASE, PRIMARILY VIA A NETWORK OF OWNED SUBSIDIARIES ALONG WITH AN ESTABLISHED TEAM OF PARTNERS. AVEVA'S PRIMARY INDUSTRIES OF POWER, OIL AND GAS AND MARINE ARE ALL ENJOYING A SUSTAINED PERIOD OF GROWTH, IN ADDITION AVEVA IS A MAJOR PLAYER IN THE RAPIDLY GROWING ASIAN MARKETPLACE, ALONG WITH CONTINUED GROWTH IN THE AMERICAS AND EUROPE. IT IS AVEVA'S POSITION IN THE MARKETS, ALONG WITH THE QUALITY OF ITS PRODUCTS AND PEOPLE, THAT HAVE ENABLED THE COMPANY TO, ONCE AGAIN, REPORT RECORD PRE-TAX PROFITS OF £11.2M AND REVENUES OF £65.9M. THIS HAS BEEN ACHIEVED WHILST INCREASING MARGINS TO £44.4M. AVEVA CONTINUES TO BUILD ON ITS SOLID NUMBER ONE POSITION IN THE MARINE INDUSTRY, ALONG WITH SIGNIFICANT EXPANSION IN THE CORE PROCESS INDUSTRIES BUSINESS. THIS HAS BEEN A YEAR OF CONSOLIDATION AND STRENGTHENING OF AVEVA'S TECHNOLOGY, LEADING DEVELOPMENT ORGANISATION AND FURTHER EXPANSION OF THE GLOBAL SALES AND CUSTOMER SERVICE INFRASTRUCTURE.

REVENUES

£65.9m

GROSS PROFIT

£44.4m

GEOGRAPHICAL OPERATIONS

AVEVA has continued to gain market share in our target sectors and across geographies, particularly in the Asia Pacific region. A breakdown of Group revenue for the year was as follows:

ASIA PACIFIC

£23.7m 36%

AMERICAS

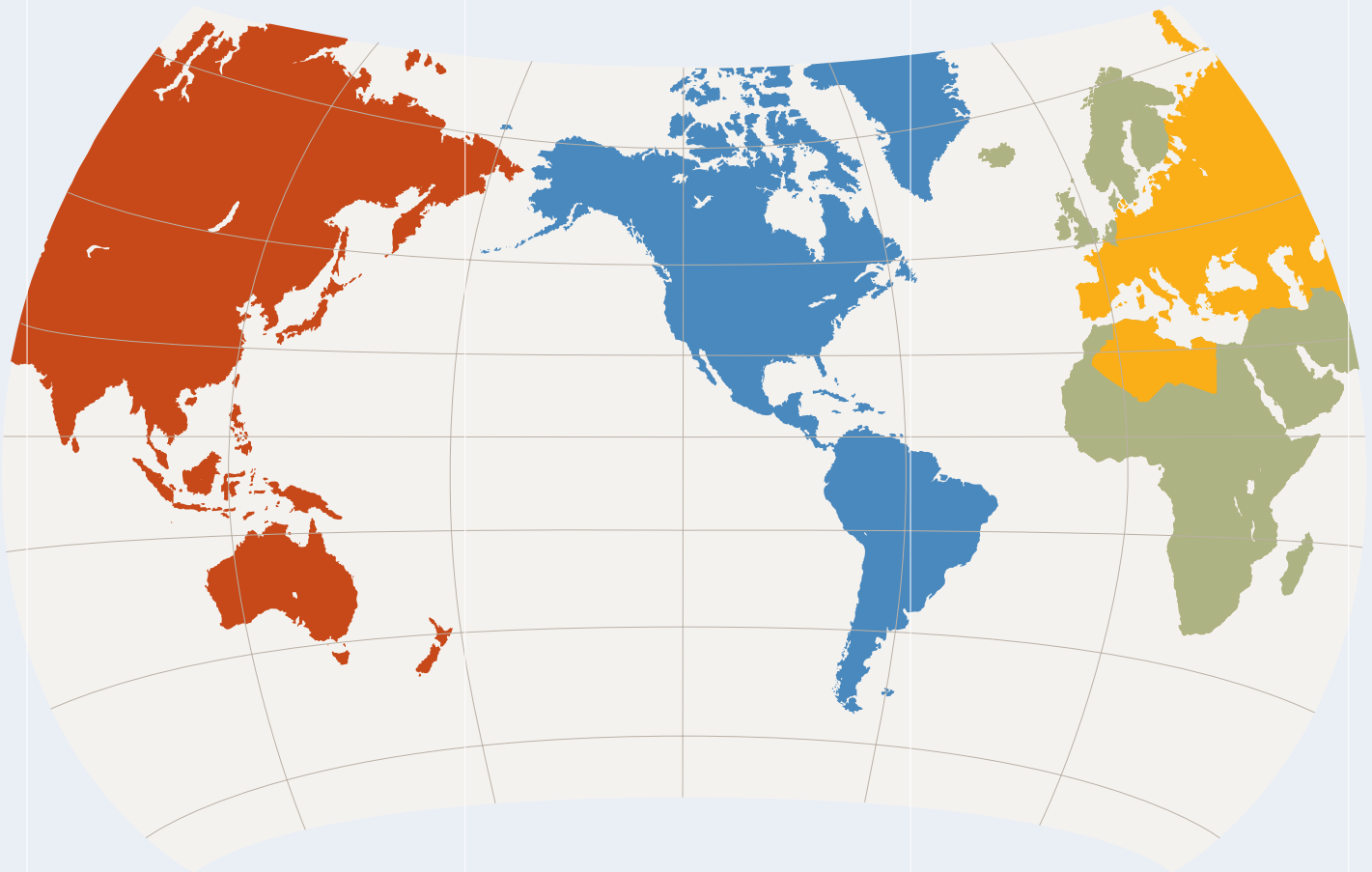
£11.1m 17%

WEMEA

£14.2m 21%

CES

£17.0m 26%



- BANGALORE, INDIA
- CHENNAI, INDIA
- GUANGZHOU, CHINA
- HONG KONG
- KUALA LUMPUR, MALAYSIA
- MELBOURNE, AUSTRALIA
- MUMBAI, INDIA
- OSAKA, JAPAN
- PERTH, AUSTRALIA
- SEOUL, KOREA
- SHANGHAI, CHINA
- SINGAPORE
- YOKOHAMA, JAPAN

- CALGARY, CANADA
- HOUSTON, USA
- WILMINGTON, USA

- ABU DHABI, UAE
- AL KHOBAR, SAUDI ARABIA
- CAMBRIDGE, UK
- CHESTERFIELD, UK
- DUBAI, UAE
- KIL, SWEDEN
- MALMÖ, SWEDEN
- OSLO, NORWAY
- PORTSMOUTH, UK
- STAVANGER, NORWAY

- FRANKFURT, GERMANY
- GENOVA, ITALY
- HAMBURG, GERMANY
- LYON, FRANCE
- MADRID, SPAIN
- MOSCOW, RUSSIA
- PARIS, FRANCE
- ST PETERSBURG, RUSSIA

CHAIRMAN'S STATEMENT



I AM PLEASED TO ANNOUNCE ANOTHER EXCELLENT YEAR FOR AVEVA. WE HAVE SEEN GOOD GROWTH IN ALL OUR REGIONS AND CONTINUED EXPANSION OF OUR VANTAGE SUITE OF PRODUCTS DELIVERING RECORD SALES, PROFITS AND CASH GENERATION. THIS HAS BEEN DRIVEN BY OUR LEADERSHIP POSITIONS IN THE HIGH GROWTH MARINE, OIL AND GAS AND POWER SECTORS, WHERE WE HAVE LONG-TERM PARTNERSHIPS WITH BLUE CHIP CUSTOMERS.

Revenue for the year increased by **15%**

KEY FINANCIALS

Group revenues increased by 15% to £65.9 million (2005 - £57.2 million). Further developing our recurring revenues remains a key strategic objective and these increased by 26% to £40.9 million (2005 - £32.4 million) during the year.

Profit from operations before amortisation, goodwill adjustment, restructuring costs and past service credit up 36% to £13.9 million (2005 - £10.2 million), leading to a strong increase in adjusted earnings per share of 74% to 48.44p (2005 - 27.86p).

Strong cash flow generated from operations resulted in net cash at the year end of £23.5 million (2005 - £11.2 million).

Investment in research and development continued with new releases of all our major products within the VANTAGE suite. This demonstrates our commitment to maintaining our leadership position and will progressively contribute to performance. Total research and development expenditure for the year amounted to £13.9 million (2005 - £10.4 million) - up 34%.

DIVIDEND

Following another year of sustained growth and with continued confidence in the outlook for AVEVA, the Board is proposing an increased final dividend of 5.2p (2005 - 4.3p). Together with the interim dividend of 2.2p, this gives a full year dividend of 7.4p (2005 - 6.1p) - an increase of 21%.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 1 August 2006 to shareholders on the register at 30 June 2006.

SHARE SPLIT

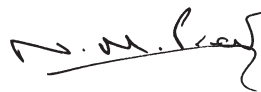
The Board has been considering how best to improve the market liquidity of the Group's shares. Following the rise in the share price in recent months, the Board considers a share split to be in the best interests of shareholders and we are therefore planning to implement a three-for-one sub-division of the Group's issued and authorised share capital, subject to gaining shareholder approval at the Annual General Meeting.

BOARD CHANGES

On the 1 April 2006, Richard King retired from the Board of AVEVA after nearly ten years of service. During this period AVEVA has developed into a truly global leader in its chosen markets. We would like to thank Richard for all his efforts and guidance over this period. I was pleased to be asked to succeed Richard as Chairman and look forward to working with the Board and the executive team to develop the business.

OUTLOOK

AVEVA continues to be at the forefront of technological improvements that support the creation and operation of major capital assets, such as power and process plants and naval and commercial ships. The marine, oil and gas and power sectors we operate within are forecast to enjoy good levels of long-term growth. We have a broad range of partnerships with blue chip clients that are leaders in each of these markets. The international infrastructure we have developed in recent years enables us to work with these customers effectively at a local level. It is also serving to expand our customer base and increase our exposure to high growth emerging economies. As a result, the Board believes that the outlook for the business continues to be positive for this year and beyond.



NICK PREST CBE
Chairman

17 May 2006

CHIEF EXECUTIVE'S REVIEW



IN MY REPORT LAST YEAR I SAID 2005/6 COULD BE AN EXCITING YEAR OF DEVELOPMENT FOR AVEVA. THIS HAS PROVED TO BE THE CASE, WITH EXCELLENT PROGRESS BEING ACHIEVED ACROSS THE BUSINESS AS WE CONTINUED TO CONSOLIDATE OUR LEADERSHIP POSITION IN PROVIDING LIFECYCLE ENGINEERING IT SOLUTIONS AND SERVICES TO THE OIL AND GAS, MARINE AND POWER INDUSTRIES. ONCE AGAIN, AVEVA'S MARKET POSITIONS, ALONG WITH THE QUALITY OF ITS PRODUCTS AND PEOPLE, HAVE ENABLED THE COMPANY TO REPORT RECORD GROWTH IN REVENUES, PROFIT AND CASH.

Adjusted net profit before tax of **£13.8m**

We entered the last financial year in a strong position, with good trading momentum across all our regions and major industry sectors. These sectors have strong underlying growth drivers and we have the products and international infrastructure to continue to exploit these high growth opportunities. In addition, we are seeing acceleration in orders from emerging markets such as Russia and South America.

ESTABLISHED PRODUCTS WIN

AVEVA is committed to focusing vigorously on developing lifecycle engineering solutions and services that are innovative, flexible and reliable.

During the year under review, we were highly successful in securing new customers as well as persuading a number of competitors' customers to adopt AVEVA products for future projects. This progress reflects our product quality, understanding of customers' businesses and excellence in delivering support services and training.

We continue to make significant ongoing investment in our product suite and believe we offer one of the most comprehensive and proven solutions available. Through the strategic relationships AVEVA enjoys with many of its customers, we know our future product roadmap is aligned with customers' upcoming requirements. Ongoing investment in research and development, as well as an evolutionary approach to product improvement, ensures our products remain 'best of class' and attractive to users worldwide.

GLOBAL REACH

AVEVA supports many of the world's leading engineering companies in the marine, oil and gas and power sectors. Each of these sectors continues to benefit from strong underlying growth supporting massive investment in new facilities and equipment. In oil and gas alone over £130 billion of projects are envisaged over the next ten years for new refineries and petrochemical plants. LNG projects feature heavily throughout the AVEVA process and marine customer base, with LNG being the world's fastest growing fuel. Annual capex on LNG terminals and carriers is set to top £9 billion by 2009.

To support the deployment of our products on these major projects we have established a high quality international network of sales and service support. Consequently, customers can be assured of high quality service across their partnerships with AVEVA.

The industries and customers that AVEVA serves are global; in the projects they work on and in the way they operate with partners to execute these projects. The trust that customers place in AVEVA is driven by the high quality and availability of our local support and services. Over recent years the AVEVA network has been developed to provide a full range of services in local languages in the world's fastest growing economies. This investment in our international infrastructure sets us apart and provides significant growth opportunities and operational strength across the globe.

PERFORMANCE AND SALES

AVEVA's customer facing business is managed as four distinct regional business units: Americas; Asia Pacific; Central, Eastern and Southern Europe; Western Europe, Middle East and Africa.

CHIEF EXECUTIVE'S REVIEW CONTINUED

Americas



2006 Revenue

£11.1m

AMERICAS - REVENUE: £11.1 MILLION (2005 - £9.4 MILLION)

Last year was a big step up for the Americas business, which represented 17% of revenue during the year. We achieved very good revenue growth whilst putting in place strategies for the longer-term development of this business. This was achieved in a year that presented some significant challenges to our major industries, including Hurricane Katrina, which affected many of our customers and their facilities.

During the year we negotiated a three-year extension of our managed services contract with DuPont. Some of the DuPont facilities in the Mississippi area were severely impacted by Katrina. AVEVA received a special commendation for its outstanding round the clock support in recovering a plant designed using AVEVA's tools, which had been totally submerged.

We also made a lot of progress during the year selling a broader range of products into our customer base. As a consequence, Jacobs has become a significant client for both design products and the new VANTAGE Enterprise NET ("VNET") product. Jacobs has been a development partner for VNET since 2004 and will be deploying it on multiple projects over the coming year.

In Canada AVEVA has continued to invest in the office in Calgary to address the upsurge in oil and gas projects in Alberta. We also signed a partner in Montréal that provides services in the Eastern Provinces - a new area for AVEVA.

In South America AVEVA was also successful in encouraging customers to use several AVEVA products on multiple projects. This business grew in excess of the market across the region.

Overall, across the Americas we did very well selling our broader product solutions and have also started to ramp up our resources to support VNET sales into both owner operators and large engineering contractors.



Hurricane Katrina sent waves over 25 feet high surging through many facilities in Louisiana. AVEVA staff helped DuPont recover electronic data to get plants back on track.

CHIEF EXECUTIVE'S REVIEW CONTINUED

Asia Pacific

ASIA PACIFIC - REVENUE: £23.7 MILLION (2005 - £20.2 MILLION)

Our Asia Pacific business continues to deliver good growth and now represents 36% of revenue. We continue to invest in this expanding region where we now employ a team of one hundred and thirty highly qualified and motivated people, spread across the Company's eleven offices in the region.

Korea has been one of the best performing regions over the past few years with revenues now accounting for almost 30% of the total Asia Pacific business. AVEVA's long-standing experience in the region has allowed us to successfully implement this operational restructuring, delivering products and services to key businesses in the region, with the potential for greater expansion.

Our success in the Korean shipbuilding market is now being translated to Japan as the country enters a major investment phase in its marine industries. AVEVA is strongly positioned to capitalise on the replacement systems market, where Japan has more in-house technology than any other region. We were very pleased to secure the order for a new system at Kawasaki Ship Building Corporation. This order, worth almost £1 million, came in slightly earlier than expected boosting the year end result.

China continues to be an area of significant growth in process, marine and power sectors. We are focused on the design institutes and companies active in the rapidly growing market for power generation in China. Customers have established a Power Users China Group to both share their experiences and to promote the use of AVEVA products, therefore strengthening our base in China and enlarging the skills pool. This Group is now working with AVEVA to introduce our VNET technology to China's power market.

Chinese shipbuilders are investing heavily in new plant and technology and AVEVA's leadership position in both shipbuilding and offshore allows us to continue to take a large share of this rapidly growing market. AVEVA customers will feature heavily in China's 5-3-1 plan, which is aimed at making China the leading global producer of commercial tonnage by 2015.

The uptake of the VANTAGE Marine ("VM") solution is moving ahead of plan following the successful release of VM 11.6 and collaboration with the world's largest shipbuilder, Hyundai Heavy Industries.

Our rapid growth and development in Asia Pacific continues to build momentum.



Peter Finch and his team have successfully developed AVEVA's Asia Pacific business to 36% of Group revenues.



Eun Joo Park runs the rapidly growing Korea and Japan business unit.



2006 Revenue

£23.7m



CES 2006 Revenue

£17.0m

WEMEA 2006 Revenue

£14.2m

CHIEF EXECUTIVE'S REVIEW CONTINUED

CES

CENTRAL, EASTERN AND SOUTHERN EUROPE - REVENUE: £17.0 MILLION (2005 - £14.7 MILLION)

We have seen a good performance from our operations in Central, Eastern and Southern Europe with growth in revenues of 16%. The regional team has led the way in converting a significant number of competitor customers to AVEVA's solutions. This trend was reported at the half year and has continued. The professionalism displayed at all levels is making new customers feel their future is secure working with AVEVA, rather than taking an upgraded solution from their existing supplier.

In addition, AVEVA is winning new business in connection with the growing nuclear power industry. Framatome is one of our major customers in this area and we continue to deploy our complete product suite across the sector. We are also capturing more projects with other companies related to Framatome through its parent Areva. (Left: AVEVA's entire power product suite is used by Areva on the new European Pressurised Reactor now under construction in Finland).

Further East, we have now completed the opening of a Moscow office, focused on the process industry, which complements our presence in St Petersburg focused on more specialist marine products.

WEMEA

WESTERN EUROPE, MIDDLE EAST AND AFRICA - REVENUE: £14.2 MILLION (2005 - £12.9 MILLION)

The main driver for business in the WEMEA region continues to come from the oil and gas industry. During the year all customers reported very high workloads. As WEMEA includes the UK this region has a very significant level of recurring business coming from a long established customer base, with many of these customers increasing their usage during the year. We have also secured contracts for VNET implementations in the Middle East. The strength of the oil and gas sector led to a slightly stronger order intake in the last six months of the year than we expected.



AVEVA engineers working together on future developments with Korean Marine engineers from Hyundai and Daewoo.

CHIEF EXECUTIVE'S REVIEW CONTINUED

Major Launches

MAJOR PRODUCT LAUNCHES

During the year AVEVA continued to deliver new innovative and advanced solutions. In particular, the first stage of the combination of AVEVA and Tribon Hull technology was delivered, with the release of VANTAGE Marine 11.6 in June 2005. Both the new Marine product and an upgraded version of our mainstream product, PDMS 11.6, have been released and are already being used by customers.

Since the launch of VNET in June 2005, we have continued to increase investment in both product development and sales. Whilst initial recruitment of resources was slower than anticipated, we believe we now have a structure in place to meet future growth expectations. We also released a new version of VNET, version 3.4, which provides users with an unprecedented level of interaction and manipulation of engineering data without the need for the source application. This was shipped at the end of the year and is also being used on mainstream production projects.

The AVEVA database technology remains at the heart of our product strategy as we provide further product integration to our customers. We are also innovating to allow easier and faster integration with other technologies, such as Microsoft's .NET and our partner AutoDesk's AutoCAD.

Last year we launched a new solution, the Laser Model Interface (LMI), which translates existing plants into a detailed 3D model using laser based photogrammetry. The product allows easier maintenance and modification of installations. So far the solution has proved successful and is gaining good momentum in the market. It was recently deployed as part of the rebuilding programme following Hurricane Katrina in New Orleans.

Our commitment to provide customers with industry leading solutions remains a top priority. As a result, we continue to set the standards across the sector in which we operate. To re-enforce this commitment, we invested £13.9 million in research and development against £10.4 million in the prior year. In the UK Department of Trade and Industry Research and Development Scoreboard published in 2005, AVEVA showed an increase in research and development spend of 64% over the previous year with the combination of AVEVA and Tribon development teams. Indeed, the research and development spend per employee at AVEVA is more than double that of the nearest competitor.



VNET has gained early market acceptance as an easy to use one stop viewing application.



Increase in research and development spend of

34%

CHIEF EXECUTIVE'S REVIEW CONTINUED



BOARD AND ORGANISATION

On 31 March 2006 Nick Prest was appointed Chairman of AVEVA. On behalf of the Board and the rest of the team at AVEVA, I would like to thank Richard King for his contribution to our development since our MBO in 1994. The Company has made tremendous progress during his tenure and we have greatly valued his unstinting support and wise counsel. We are delighted to welcome Nick Prest, whose international business experience will be an invaluable asset for the Company going forward.

I would like to thank colleagues across the Group for their commitment and professionalism. In particular I would like to thank our US based employees who, with the Hurricane and storms in Houston, had to temporarily evacuate our office whilst supporting customers in very challenging situations.

PROSPECTS

The last year has been one of excellent growth and consolidation for AVEVA, both in terms of product innovation and development of customer relationships. We have invested further in people and research and development across the Group, and are ideally positioned to benefit from buoyant markets in oil and gas, power and marine worldwide. The VNET product continues to generate encouraging interest and our established products are proving increasingly attractive and efficient for our customers.

Trading so far this year is good and order books are in line with expectations. AVEVA today is a global leader well positioned in growth markets to continue its successful development. We look to the future with confidence.

A handwritten signature in black ink, appearing to read 'Richard Longdon'. The signature is fluid and stylized, with a long horizontal line extending to the right.

RICHARD LONGDON
Chief Executive

17 May 2006

The last year has been one of

Excellent Growth

CORPORATE SOCIAL RESPONSIBILITY 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 judgement 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

Although AVEVA operates in an industry and environment which are considered low risk from a health and safety perspective, 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 UK offices are covered by a Health and Safety Committee, fire wardens and first aiders. Other offices around the world have similar cover dependent upon local needs, practices and customs. The Group has appropriate systems in place which review local and worldwide policy.



AVEVA's contribution to Tsunami relief has helped families rebuild their lives and restart small fishing communities devastated by the tidal wave.

FINANCIAL REVIEW



A VERY STRONG SET OF FINANCIAL RESULTS FOR THE YEAR SHOW GROWTH IN REVENUE OF 15%, FROM £57.2 MILLION TO £65.9 MILLION, AND GROWTH IN PROFIT FROM OPERATIONS BEFORE AMORTISATION, GOODWILL ADJUSTMENT, RESTRUCTURING COSTS AND PAST SERVICE CREDIT UP 36% TO £13.9 MILLION. CASH GENERATION ALSO REMAINED STRONG WITH NET CASH BALANCE AT THE END OF YEAR UP 110% TO £23.5 MILLION.

REVENUE

Revenue for the year amounted to £65.9 million (2005 - £57.2 million) - an increase of 15% from 2005.

Recurring revenues remained a key element of our continued growth and now account for 62% of our total revenues at £40.9 million (2005 - £32.4 million), up 26% on the prior year.

Licence fee revenues remained relatively flat and broadly in line with expectations. These fees remain predominantly driven by new customer wins in Asia.

Revenues generated from services continued to be driven by new product sales and increased this year by 14% to £7.5 million (2005 - £6.6 million).

GROSS MARGIN, OPERATING EXPENSES AND PROFIT FROM OPERATIONS

Operating margins remained broadly in line with previous years, after charging increased research and development costs of £13.9 million (2005 - £10.4 million). As already indicated this has been a year of substantial investment.

Operating costs increased to £33.2 million (2005 - £29.6 million) which reflects increased investment in both

technology and our global sales structure. Operating costs for the year include a charge for reduction in goodwill of £0.6 million (2005 - £nil). IFRS now prescribes that where the tax charge has been reduced due to the utilisation of previously unrecognised pre-acquisition losses, the carrying value of goodwill should be reduced by a charge to operating expenses of the same amount.

Profit from operations was £13.9 million (2005 - £10.2 million), an increase of 36%, which is before amortisation of intangibles, adjustment to goodwill, restructuring costs and past service credit on UK defined benefit pension scheme of £2.7 million (2005 - £0.8 million).

The Group investment in research and development is now at an all time high, with new releases across all our VANTAGE suite of products, including VANTAGE Marine which saw its first major release and subsequent sales in the year. Investment in research and development has increased by 34% to £13.9 million (2005 - £10.4 million).

Staff costs remain our single biggest expenditure. Total staff headcount has increased from 459 in March 2005 to 491 at 31 March 2006. Total staff costs,

including related costs, amounted to £29.0 million (2005 - £20.3 million). Continued investment in this area remains in line with current growth rates and ensures AVEVA, its people and technologies remain world class.

TAXATION

The effective tax rate is lower than the UK standard rate due to a number of one-off credits, including the benefit of tax losses, other unrecognised deferred tax assets, and the write back of overseas tax previously written off as irrecoverable. After adjusting for these items the effective rate before amortisation of intangibles is 31%, which is higher than the UK standard rate and due to a significant proportion of the Group's profits being earned in overseas entities subject to higher rates of tax.

EARNINGS PER SHARE

Adjusted earnings per share (which is before amortisation of intangibles, adjustment to goodwill, restructuring costs and past service credit) were 48.44p compared with 27.86p in 2005 - an increase of 74%. Basic earnings per share were 36.41p (2005 - 23.91p). 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 5.2p per ordinary share, resulting in a total dividend per share for the year of 7.4p (2005 - 6.1p). The final dividend will be paid on 1 August 2006 to shareholders on the register at the close of business on 30 June 2006. The cost of dividends paid and proposed in respect of the financial year was £1.6 million (2005 - £1.3 million).

BALANCE SHEET

An integral part of the Group's success over the past few years has been the strength of its balance sheet. It has given us the ability to invest organically and use cash to acquire key technology to enhance our product offering. The Group balance sheet continues to remain strong, with total assets increasing from £78.9 million to £89.7 million at 31 March 2006. Trade and other receivables at 31 March 2006 were £26.9 million, compared with £26.3 million at 31 March 2005. Deferred revenue increased to £12.5 million from £11.2 million at 31 March 2005.

CASH FLOWS

Overall net cash balances increased by £12.3 million to £23.5 million. Cash flow for the year from operating activities was £12.3 million (2005 - £8.5 million) reflecting strong collection of accounts receivable by the year end. Net capital expenditure was £1.0 million (2005 - £0.9 million), which was principally related to the renewal of computer equipment. Tax paid was £1.4 million (2005 - £3.2 million) and equity dividends paid were £1.4 million (2005 - £1.3 million).

TREASURY POLICY

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 a bank overdraft and revolving loan facility of £6.0 million in

the UK and approximately £2.2 million (SEK 30 million) 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.

REVIEW OF RISK AND UNCERTAINTIES

AVEVA has a very strong position in the market. We have over recent years delivered good growth in revenue, profits and cash, but as with any organisation we do have some inherent risks and uncertainties which can affect the performance of the Company. The Board considers the following to be the more relevant to the business at this time.

The Company's success has been built upon the knowledge developed in its intellectual property rights; protection of this remains critical. The Company uses third party technology to encrypt, protect and restrict access to its products. Access limitations and rights are also defined within the terms of the contract.

AVEVA generates a substantial amount of its income from customers whose main business is derived from capital projects driven by growth in the oil, gas, power and marine markets. Whilst the global complexity of these projects affords some protection against short-term issues, future success is dependent on growth within these markets.

As with most software companies, timings of contractual signing and delivery is key to recognising revenue. With the majority of costs being people,

sales at the end of the year tend to generate very high margin business. Timing of closure of these can materially affect profit, whilst the increasing recurring nature of our business mitigates this to some extent.

Exposure to foreign currency gains and losses can be material to the Group, with approximately £57.8 million (88%) of the Group's revenues denominated in a foreign currency, of which our two largest are US Dollars £22 million and Euro £18 million.

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 entities incurring costs denominated in their local currency.

AVEVA's success has been built on the quality and reputation of its products and services, which rely almost entirely on the quality of the people delivering these. Maintaining and growing this pool of highly skilled and motivated individuals across all disciplines and geographies remains key to our ongoing success.



PAUL TAYLOR
Finance Director

17 May 2006

BOARD OF DIRECTORS



RICHARD KING CBE, AGED 76, CHAIRMAN UNTIL 31 MARCH 2006

Richard King joined AVEVA as Chairman at the time of the management buyout in August 1994. Prior to that he held senior management positions in both Pye of Cambridge and Philips NV. In 1980 he created, out of Philips, Cambridge Electronic Industries, a group of some twenty-five specialist companies, which was listed on the London Stock Exchange (LSE) in 1982. He also served 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 retired from the Board on 1 April 2006.



NICK PREST CBE, AGED 53, CHAIRMAN FROM 1 APRIL 2006

Nick Prest joined the Board of AVEVA in January 2006 and succeeded Richard King as Chairman in April 2006. Following a spell at the Ministry of Defence at the outset of his career Nick joined Alvis, the defence contractor, in 1982, becoming Chief Executive in 1989 and Chairman and Chief Executive in 1996. Nick left Alvis following its acquisition by BAE Systems in 2004, by which time the Company had become a leading international business in military land systems. In addition to his position at Alvis, Nick had a prominent role in defence industry representation, serving as Chairman of the Defence Manufacturers' Association and Vice-Chairman of the National Defence Industries Council. In addition to being Chairman of AVEVA, Nick is also Chairman of Cohort plc, a defence technical services business floated on AIM in March 2006.



RICHARD LONGDON, AGED 50, 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 41, 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 61, 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 and Velti Group plc (both quoted on AIM). 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 49, NON-EXECUTIVE DIRECTOR

Colin Garrett has spent the majority of his career in corporate finance. Since 2000 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, Sentec Limited and Ark Capital 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 2006

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 2006.

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.

RESULTS AND DIVIDENDS

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

The Group made a profit for the year after taxation of £8,076,000 (2005 - £5,113,000). Revenue was £65,930,000 (2005 - £57,163,000) and comprised of software licences, software maintenance and services.

The Directors recommend the payment of a final dividend of 5.2p per ordinary share (2005 - 4.3p). If approved at the forthcoming Annual General Meeting, the final dividend will be paid on 1 August 2006 to shareholders on the register at close of business on 30 June 2006.

BUSINESS REVIEW

In accordance with section 243ZZB Directors' report: Business review, details of the review of the business and the risks and uncertainties facing the Group are contained in the Financial review on pages 18 to 19.

SUPPLIERS' 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 (2005 - £nil). At 31 March 2006, the Group had an average of 27 days' purchases owed to trade creditors.

RESEARCH AND DEVELOPMENT

The Group continues an active programme of research and development which 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.

FINANCIAL INSTRUMENTS

The Group's financial risk management objectives and policies are discussed in note 24 to the financial statements.

DIRECTORS AND THEIR INTERESTS

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

N Prest	(Chairman from 1 April 2006)	(appointed 11 January 2006)
R A King	(Chairman to 31 March 2006)	(retired 1 April 2006)
C A Garrett*		
R Longdon		
D W Mann*		
P R Taylor		

*non-executive Directors

DIRECTORS' REPORT CONTINUED

The beneficial interests in the shares of the Company of Directors who held office at 31 March 2006 are as follows:

	2006 10P ORDINARY SHARES	2005 10P ORDINARY SHARES
N Prest (from date of appointment)	–	–
R A King	100,000	131,250
C A Garrett	–	–
R Longdon	240,476	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 2006 and 17 May 2006.

Directors' share options are disclosed in the Directors' remuneration report on pages 27 to 31.

Resolutions will be submitted to the Annual General Meeting for the re-election of Nick Prest and Richard Longdon. Brief biographical details of those Directors who are proposed for re-election appear on page 20.

OTHER SUBSTANTIAL SHAREHOLDINGS

On 15 May 2006, 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	1,614,879	7.26%
Chase Nominees Limited	1,074,582	4.83%
The Bank of New York (Nominees) Limited BIL Account	834,576	3.75%
Chase Nominees Limited UBSGAMEQ Account	792,817	3.56%
HSBC Global Custody Nominee (UK) Limited 811664 Account	750,000	3.37%
BBHISL Nominees Limited 121624 Account	729,345	3.28%
Chase Nominees Limited SUTL Account	694,464	3.12%
Vidacos Nominees Limited	691,017	3.11%

CHARITABLE DONATIONS

During the year the Group made charitable donations totalling £16,727 (2005 - £11,098) of which £13,000 was paid to The Outward Bound Trust and £1,995 to The Arthur Rank Hospice Charity with the remainder 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 13 October 2007 and the date of the next Annual General Meeting up to a maximum nominal amount of £741,758 (representing 33.33% of the total issued ordinary share capital as at 26 May 2006. 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 £111,263 (approximately 5% of the issued ordinary share capital at 26 May 2006 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 2,225,276 ordinary shares until the earlier of 13 October 2007 and the date of the next Annual General Meeting. This represents 10% of the ordinary shares in issue at 26 May 2006 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 2006 (being the latest practicable date prior to the publication of the notice of the Annual General Meeting), there were 373,177 outstanding options granted under all share option plans operated by the Company which, if exercised, would represent 1.68% 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 1.86% of the issued ordinary share capital of the Company.

SYNERGY BENEFITS FROM TRIBON ACQUISITION

Following the acquisition of Tribon Solutions AB Group in May 2004, the Group disclosed in the Class 1 Circular relating to the acquisition that it expected to achieve synergy benefits of £2,400,000. In accordance with Listing Rule 12.43b the Group has disclosed that it achieved actual synergy benefits of £3,200,000, which was principally through additional headcount savings.

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.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 21. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

High Cross
Madingley Road
Cambridge
CB3 0HB

By order of the Board,



P R Taylor
Secretary
17 May 2006

CORPORATE GOVERNANCE STATEMENT

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority ("the Combined Code") and for which the Board is accountable to shareholders. The Company has complied with the provisions of Section 1 of the Combined Code throughout the year except for the following matters:

- A.7.2 Non-executive Directors (with the exception of Nick Prest) 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.
- A.6.1 A formal performance evaluation of the Board, its Committees and its individual Directors was not conducted during the year. The Board decided that it was appropriate to defer the implementation of a formal performance evaluation process until a new Chairman was appointed, to allow him to have input into the process. The appointment of Nick Prest in January 2006 meant there was insufficient time to have this in place by 31 March 2006. The Board will ensure this is a priority for the forthcoming financial year.
- B.2.1 and C.3.1 The Audit Committee and the Remuneration Committee should only consist of independent non-executive Directors. During the year, the Chairman who is not a non-executive Director, was a member of both Committees. The Company believes that it is appropriate for the Chairman to sit on both Committees given the size of the Board.

The Company has applied the Principles of Good Governance set out in Section 1 of the Combined Code, including both the main principles and supporting principles, by complying with the Combined Code as noted above.

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 Chairman, two non-executive Directors, including the senior independent Director, and two executive Directors consisting of the Chief Executive and Finance Director. The roles of the Chairman and the Chief Executive are distinct as agreed by the Board. The Chairman is responsible for the effectiveness of the Board and that it meets its obligations and responsibilities. The Chief Executive is responsible for providing overall leadership, providing management to the Group and is responsible for the execution of the Group's strategic and operating plans. 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
Nick Prest	Chairman (from 1 April 2006)	Chairman	Member	Member
Richard King	Chairman (to 31 March 2006)	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 served for more than nine years as Chairman, which the Board has considered and believe that he was independent. The senior independent Director is David Mann and he is available to shareholders if they have concerns, which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve.

The Board is responsible to shareholders for the proper management of the Group. There is a formal 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 met nine times during the year. 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 ATTENDED	AUDIT COMMITTEE MEETINGS ATTENDED	REMUNERATION COMMITTEE MEETINGS ATTENDED
Number of meetings held	9	3	2
Richard King	9	3	2
David Mann	9	3	2
Colin Garrett	9	3	2
Richard Longdon	9	–	–
Paul Taylor	9	–	–
Nick Prest*	3	–	1

* From date of appointment (11 January 2006)

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. On 11 January 2006 Nick Prest CBE was appointed as deputy Chairman and took over as Chairman when Richard King retired from the Board on 1 April 2006. On his appointment as Chairman, the other Board members confirmed the absence of any relationships or circumstances that would lead them to believe that Nick Prest should not be considered to be independent. Mr Prest was appointed as Chairman of Cohort plc, an AIM listed defence technical services company, on 16 February 2006.

Although no formal meetings between the Chairman and the non-executive Directors were held during the year without the executives being present, other than the Remuneration and Audit Committee meetings, there is regular contact between the Chairman and the non-executive Directors to discuss appropriate matters as necessary. Richard King announced to the Board in the summer of 2005 of his intention to retire once a new Chairman had been appointed. The search for a new Chairman was undertaken with the assistance of a third party recruitment firm. The Board decided that it was appropriate to defer the implementation of a formal performance evaluation process for the Board as a whole, its Committees and the non-executive Directors until a new chairman was appointed to allow him to have input into the process. The appointment of Nick Prest in January 2006 meant that there was insufficient time to have a formal performance evaluation process in place by 31 March 2006, but the Board will ensure that this is a priority in the forthcoming financial year. During the year the Board continued to monitor its performance and that of its Committees and the individual Directors, although as in previous years these discussions were not minuted.

A formal evaluation of the performance of the executive Directors, Richard Longdon and Paul Taylor was carried out by the Remuneration Committee as part of the process for determining their remuneration for the year.

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 Longdon is subject to re-election at the forthcoming Annual General Meeting. In addition, the appointment of Nick Prest as a Director will also be required to be approved at the Annual General Meeting.

CORPORATE GOVERNANCE STATEMENT CONTINUED

AUDIT COMMITTEE

The Audit Committee met three times during the year and its members were Colin Garrett, David Mann and Richard King up to the date of his retirement. Nick Prest was appointed to the Audit Committee on his appointment to the Board. The Chairman of the Committee, Colin Garrett, is deemed by the Board to have 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 met during the year to review the scope of the audit and the audit procedures, the format and content of the audited financial statements and interim reports, including the notes and the accounting principles applied. In addition, a separate meeting was held to review the transition to IFRS and the impact on the financial statements. 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. Copies of the Audit Committee terms of reference are available on request from the Company's registered office.

The Audit Committee monitors fees paid to the auditors for non-audit work. Non-audit work performed by the auditors was 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 valuation services for business combinations and share-based payments 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 annually.

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 public relations 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 Chairman did meet with institutional shareholders to discuss the long-term strategy and performance of the business.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

The Board seeks to use the Annual General Meeting to communicate with investors and all shareholders are encouraged to participate. The Chairmen of the Audit Committee and the Remuneration Committee will be available at the Annual General Meeting 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 material 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. Copies of the Remuneration Committee terms of reference are available on request from the Company's registered office.

During the year the Committee comprised a Chairman (David Mann) and two non-executive Directors (Richard King and Colin Garrett). Nick Prest was appointed to the Remuneration Committee on his appointment to the Board. 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 2006 amounted to Richard Longdon £157,000 (2005 - £132,000) and Paul Taylor £102,000 (2005 - £86,000). For the year ended 31 March 2006 there was a cap on the bonus that an executive Director could earn under the scheme and the maximum payable was 60% of basic salary.

DIRECTORS' REMUNERATION REPORT CONTINUED

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 comparator companies. 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 a total of 54,272 share options were granted to Richard Longdon and Paul Taylor under the AVEVA Group plc Executive Share Option Plan. There were no share options granted under the LTIP during the year. Future options granted will be at a price equal to the nominal value of an ordinary share which is 10p and will be subject to condition of exercise. The extent to which options will be capable of exercise will depend on the extent to which the condition of exercise has been satisfied. The condition of exercise for the current LTIP awards is based on the ranking of the Company in terms of its total shareholder return measured against other companies in a relevant London Stock Exchange index such as the techMARK 100 index. The option 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

The performance conditions will be measured three years from the date of grant. There will be no retesting of the condition of exercise.

In determining the conditions of exercise for any future grants 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
N Prest	10 January 2006	11 January 2006	3

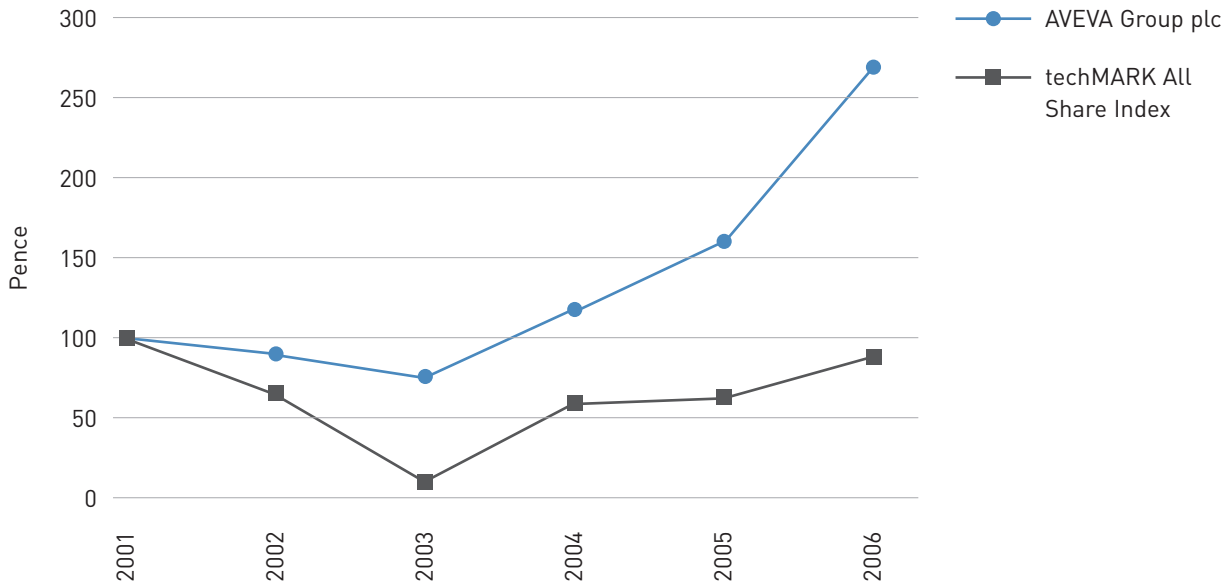
The Committee considers that the notice periods of the executive Directors are in line with those in other companies of a similar size and nature and are in the best interests of the Group to ensure stability in senior management. The non-executive and executive Directors retire at any Annual General Meeting where they are so required by the Articles of Association.

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.

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 2001-2006



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	2006 TOTAL £000	2005 TOTAL £000
<i>Non-Executive</i>						
R A King	-	57	-	-	57	57
C A Garrett	-	28	-	-	28	25
D W Mann	-	28	-	-	28	25
N Prest*	-	16	-	-	16	-
<i>Executive</i>						
R Longdon	262	-	157	20	439	372
P R Taylor	170	-	102	17	289	246
Aggregate emoluments	432	129	259	37	857	725

* From date of appointment (11 January 2006)

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 2005 NUMBER	GRANTED NUMBER	EXERCISED NUMBER	LAPSED NUMBER	AS AT 31 MARCH 2006 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	-	10.0p	01.07.07	30.06.11
	-	32,915	-	-	32,915	-	796.0p	20.07.08	20.07.12
P R Taylor	71,000	-	-	-	71,000	-	524.7p	19.01.04	18.01.08
	9,000	-	-	-	9,000	-	10.0p	01.07.07	30.06.11
	-	21,357	-	-	21,357	-	796.0p	20.07.08	20.07.12

The market price as at 31 March 2006 was £10.91 with a high-low spread for the year of £6.62 to £11.19.

The aggregate gain on exercise of options by Directors for the year ended 31 March 2006 was £nil (2005 - £nil).

The options are normally exercisable in full or in part between the third and seventh anniversaries of the date of grant. All options at an exercise price of £5.247 and £7.96 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 at 10p are part of the LTIP scheme and are subject to performance criteria as set out on page 28.

PENSIONS

During the year, two Directors, (Richard Longdon and Paul Taylor) were members of AVEVA Solutions Limited's defined benefit pension scheme. It is a contributory, funded, occupational pension scheme approved by the Inland Revenue and since 1 October 2004 Career Average Revalued Earning benefits apply. 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. Similarly, a scheme-specific earnings limit applies to the benefits earned by Richard Longdon. 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 Directors' death in retirement and a lump sum is payable if death occurs in service. No other Directors were members of a pension scheme during the year (2005–none).

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

	ACCUMULATED ACCRUED PENSION AT 31 MARCH 2006 £	ACCUMULATED ACCRUED PENSION AT 31 MARCH 2005 £	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' CONTRIBUTIONS £
R Longdon	108,177	99,050	9,127	5,643	52,534
P R Taylor	36,371	32,590	3,781	3,011	17,512

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 2006 £	31 MARCH 2005 £	MOVEMENT, LESS DIRECTORS' CONTRIBUTIONS £
R Longdon	1,093,270	826,310	252,960
P R Taylor	280,410	198,750	73,470

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
17 May 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the Consolidated financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union, and also for preparing the Company financial statements in accordance with applicable United Kingdom accounting standards and law.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently; and
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs or United Kingdom accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Group has complied with IFRSs and that the Company has complied with United Kingdom accounting standards, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the Consolidated financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation, and that the Company financial statements comply with the Companies Act 1985 and United Kingdom accounting standards. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT

AVEVA GROUP PLC – THE GROUP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVEVA GROUP PLC

We have audited the Group financial statements of AVEVA Group plc for the year ended 31 March 2006 which comprise the Consolidated income statement, the Consolidated statement of recognised income and expenses, the Consolidated balance sheet, the Consolidated cash flow statement and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of AVEVA Group plc for the year ended 31 March 2006 and on 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 and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view, the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and that the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Financial review that is cross referred from the business review section of the Directors' report.

We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We 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 Group financial statements. The other information comprises only the Chairman's statement, the Chief Executive's review, the Financial review, the Corporate governance statement and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group 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 Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.



Ernst & Young LLP
Registered Auditor
Cambridge
17 May 2006

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	NOTES	2006 £000	2005 £000
REVENUES	5,6	65,930	57,163
Cost of sales	7	(21,514)	(18,221)
GROSS PROFIT		44,416	38,942
OPERATING EXPENSES			
Selling and distribution costs	7	(21,742)	(18,788)
Administrative expenses	7	(11,439)	(10,799)
Total operating expenses		(33,181)	(29,587)
PROFIT FROM OPERATIONS	8	11,235	9,355
ANALYSIS OF PROFIT FROM OPERATIONS			
Profit from operations before amortisation, goodwill adjustment, restructuring costs and past service credit		13,902	10,200
Past service credit on defined benefit pension scheme		–	3,100
Restructuring costs		–	(2,287)
Adjustment to carrying value of goodwill in respect of utilisation of tax losses		(602)	–
Amortisation of intangibles		(2,065)	(1,658)
PROFIT FROM OPERATIONS		11,235	9,355
Finance revenue	9	1,498	1,170
Finance expense	10	(1,578)	(1,401)
PROFIT BEFORE TAX		11,155	9,124
Income tax expense	12	(3,079)	(4,011)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		8,076	5,113
EARNINGS PER SHARE (PENCE)			
- basic	14	36.41	23.91
- diluted	14	36.13	23.78

All activities relate to continuing activities.

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

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

FOR THE YEAR ENDED 31 MARCH 2006

	2006 £000	2005 £000
Deferred tax on items recognised directly in equity	(60)	(102)
Exchange differences arising on translation of foreign operations	454	242
Actuarial gain on defined benefit pension schemes	1,328	900
Net income recognised directly in equity	1,722	1,040
Profit for the year	8,076	5,113
TOTAL RECOGNISED INCOME AND EXPENSES RELATING TO THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS	9,798	6,153

The accompanying notes are an integral part of this Consolidated statement of recognised income and expenses.

CONSOLIDATED BALANCE SHEET

31 MARCH 2006

	NOTES	2006 £000	2005 £000
NON-CURRENT ASSETS			
Goodwill	15	16,612	17,157
Other intangible assets	16	13,584	15,802
Property, plant and equipment	17	4,905	4,879
Deferred tax assets	25	2,876	1,738
Other receivables	19	268	177
		38,245	39,753
CURRENT ASSETS			
Trade and other receivables	19	26,896	26,312
Current tax assets		428	749
Cash and cash equivalents	20	24,173	12,114
		51,497	39,175
TOTAL ASSETS		89,742	78,928
EQUITY			
Issued share capital	29	2,225	2,204
Share premium	30	25,353	24,323
Other reserves	30	4,617	4,163
Retained earnings	30	18,665	10,679
TOTAL EQUITY	30	50,860	41,369
CURRENT LIABILITIES			
Trade and other payables	21	24,192	23,410
Financial liabilities	22	832	944
Current tax liabilities		5,643	2,293
Provisions	26	-	1,050
		30,667	27,697
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	3,795	4,354
Financial liabilities	22	265	-
Provisions	26	294	232
Retirement benefit obligations	27	3,861	5,276
		8,215	9,862
TOTAL EQUITY AND LIABILITIES		89,742	78,928

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

The financial statements were approved by the Board of Directors and authorised for issue on 17 May 2006. They were signed on its behalf by:



N Prest
Director
17 May 2006



R Longdon
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

NOTES	2006 £000	2005 £000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit from operations	11,235	9,355
Depreciation of property, plant and equipment	926	1,498
Amortisation of intangible assets	2,276	1,658
Loss/(profit) on disposal of non-current assets	6	(35)
Share-based payments	84	24
Difference between pension contributions paid and amounts recognised in income statement	(266)	(2,928)
Adjustment to carrying value of goodwill	602	-
Changes in working capital:		
Inventories	-	217
Trade and other receivables	(999)	(4,097)
Trade and other payables	807	5,086
Provisions	(988)	856
Cash generated from operating activities before tax	13,683	11,634
Income taxes paid	(1,353)	(3,159)
NET CASH GENERATED FROM OPERATING ACTIVITIES	12,330	8,475
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Tribon Solutions AB	-	(17,043)
Acquisition of Realitywave, Inc	-	(3,192)
Purchase of property, plant and equipment	(1,026)	(1,080)
Interest received	170	70
Proceeds from disposal of property, plant and equipment	49	150
Purchase of intangible assets	(38)	-
NET CASH USED IN INVESTING ACTIVITIES	(845)	(21,095)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(60)	(101)
Proceeds from the issue of shares	1,051	16,491
Payment of finance lease liabilities	(14)	(71)
Proceeds from sale and leaseback	364	-
Dividends paid to equity holders of the parent	(1,442)	(1,274)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(101)	15,045
Net increase in cash and cash equivalents	11,384	2,425
Net foreign exchange difference	908	73
Opening cash and cash equivalents	20 11,211	8,713
CLOSING CASH AND CASH EQUIVALENTS	20 23,503	11,211

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

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

AVEVA Group plc is a public limited company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 96. AVEVA Group plc's shares are publicly traded on the Official List of the London Stock Exchange.

2 BASIS OF PREPARATION

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2006. The consolidated financial statements are presented in pounds Sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

a) Statement of compliance

The consolidated financial statements of AVEVA Group plc and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. The parent Company financial statements of AVEVA Group plc have been prepared in accordance with UK generally accepted accounting practice and are included at pages 88 to 92. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given at note 33. The date of transition to IFRS was 1 April 2004. The consolidated financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the European Union "Regulation of the European Parliament and of the Council on the application of international accounting standards", Regulation No. 1606/2002.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of AVEVA Group plc and its subsidiaries as at 31 March each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using existing GAAP for each country of operation. Adjustments are made to translate any differences that may exist between the respective local GAAP's and IFRS.

Inter-company balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

On acquisition, assets and liabilities of subsidiaries are measured at their fair values at the date of acquisition, with any excess of the cost of acquisition over this value being capitalised as goodwill.

3 SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2006 was £16,612,000 (2005 - £17,157,000).

b) UK defined benefit pension scheme

The determination of the Group's obligations and expense for defined benefit pensions is dependent on the selection, by the Board of Directors, of assumptions used by the pension scheme actuary in calculating these amounts. The assumptions applied are described in note 27 and include, amongst others, the discount rate, the expected return on plan assets, rates of increase in salaries and mortality rates. While the Directors consider that the assumptions are appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect the amount of the Group's future pension obligations, actuarial gains and losses included in the Consolidated statement of recognised income and expenses in future years and the future staff costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue

Revenues comprise 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 together with an obligatory annual fee. Additional users can be licenced 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.

The Group also licences its software using a token licencing model. Under this model, a "basket of tokens" representing licences to use the software over a defined period is granted, which enables the customer to draw these down as and when required. Where the customer commits in advance to a specified number of tokens over a defined period, a proportion of revenue is recognised with an appropriate element deferred for post contract support obligations, subject to the above recognition conditions being met. Where the customer is charged in arrears, revenue is recognised based on actual number of tokens used.

The revenue and profit of development contracts is recognised on a percentage completion basis when the outcome of the contract can be estimated reliably. The stage of contract completion is usually determined by reference to the costs incurred to date as a proportion of the total estimated costs. Only costs that reflect the services performed to date and to be performed are included in costs incurred to date and the estimate of total costs. When the contract cannot be estimated reliably, revenue is recognised to the extent that costs can be recovered, otherwise costs are expensed as incurred.

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

b) Foreign currencies

The functional and presentational currency of AVEVA Group plc is pounds Sterling (£). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance sheet date. All differences are taken to the Consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The subsidiaries have a number of different functional currencies. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into pounds sterling (£) at the rate of exchange ruling at the Balance sheet date, and their Income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on the retranslation are taken directly to a separate component of equity. Prior to 31 March 2004, cumulative exchange differences were reported as part of retained earnings. The Group has taken advantage of the transitional provisions of IFRS 1 and is not required to record cumulative translation differences arising prior to the transition date. In utilising this exemption, all cumulative translation differences are deemed to be zero as at 1 April 2004 and all subsequent disposals shall exclude any translation differences arising prior to the date of transition and the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the Consolidated income statement.

c) Goodwill

Goodwill which arose on acquisitions in the year ended 31 March 1998, and earlier periods, was written off to reserves in accordance with the UK GAAP accounting standard then in force. As permitted by FRS 10 which replaced the previous standard, the goodwill previously written off to reserves has not been reinstated in the Consolidated balance sheet.

For acquisitions arising between 31 March 1998 and 31 March 2004, 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, was capitalised under UK GAAP and written off on a straight-line basis over its useful economic life.

The Group has elected not to apply IFRS 3, "Business Combinations" retrospectively to business combinations that took place before 1 April 2004. As a result, the carrying amount of goodwill in the opening IFRS Balance sheet is that recorded under UK GAAP at 1 April 2004 (date of transition).

Goodwill on acquisitions after 1 April 2004 is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill already carried in the Consolidated balance sheet is not amortised after 1 April 2004.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

d) Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to each class of intangible assets as set out below. Expenditure on internally developed intangible assets, excluding development costs, is taken to the Consolidated income statement in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated.

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Amortisation is calculated on a straight-line basis over the estimated useful economic lives of the asset which are as follows:

Purchased software rights	10 years
Other software	4 years
Tribon developed technology	5 years
Tribon customer relationships	20 years
Realitywave developed technology	12 years

e) Research expenditure

Research expenditure is written off in the year of expenditure.

f) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis to write down the assets to their estimated residual value over the useful economic life of the asset as follows:

Computer equipment	4 years
Fixtures, fittings and office equipment	6-8 years
Motor vehicles	4 years

Assets held under finance leases and leasehold improvements are amortised on a straight-line basis over the period of the lease or useful economic life if shorter. Borrowing costs related to the purchase of property, plant and equipment are not capitalised.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

g) Impairment of assets

Goodwill arising on acquisition is allocated to cash-generating units expected to benefit from the combination's synergies and represent the lowest level at which goodwill is monitored for internal management purposes and generates cash flows which are independent of other cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. The carrying values of property, plant and equipment, and intangible assets other than goodwill are reviewed for impairment when events or changes in circumstance indicate the carrying value may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the Consolidated income statement in the administrative expenses line item.

h) Trade and other receivables

Trade receivables, which generally have thirty to ninety day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

i) Cash and cash equivalents

Cash and short-term deposits in the Consolidated balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. The carrying amount of these approximates their fair value. For the purpose of the Consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

j) Derivative financial instruments

As permitted by IFRS 1, IAS 32 and IAS 39, the Group has applied its UK GAAP policies for financial instruments in the preparation of the comparative information for the year ended 31 March 2005. From 1 April 2005, the Group has applied IAS 32 and IAS 39.

The only derivative financial instruments the Group holds are forward foreign exchange contracts to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. The Group has not applied hedge accounting during the year and therefore all forward foreign exchange contracts have been marked-to-market and are held at fair value on the Consolidated balance sheet with any movements being recorded in the Consolidated income statement. 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 or similar currencies 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 Consolidated income statement, or as adjustments to the carrying amount of property, plant and equipment, only when the hedged transaction has itself been reflected in the Group's consolidated financial statements.

In the prior year, gains and losses on forward foreign exchange contracts were recognised in the Consolidated income statement when the contracts were settled.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Consolidated income statement.

k) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Consolidated income statement on a straight-line basis over the lease term.

l) Taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the Balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance sheet date.

Income tax relating to items recognised directly in equity are recognised in equity and not in the Consolidated income statement.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance sheet.

m) Post retirement benefits

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

m) Post retirement benefits

The German unfunded defined benefit scheme is closed to new applicants and provides benefits to five deferred members following an acquisition in 1992 by Tribon. No current employees participate in the scheme. Full provision has been made for the liability on the Consolidated balance sheet.

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 IAS 19 to account for the scheme as if it was a defined contribution scheme.

For the defined benefit schemes, the defined benefit obligation is calculated annually for each plan by independent actuaries using the projected unit credit method which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. The retirement benefit liability in the Balance sheet represents the present value of the defined benefit obligation (using a discount rate based on high quality bonds) as reduced by the fair value of plan assets, out of which the obligations are to be settled directly and unrecognised past service cost. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions. The current service cost is recognised in the Consolidated income statement as an employee benefit expense. The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the Consolidated income statement as finance revenue and finance expense respectively.

A past service credit is recognised immediately to the extent that benefits are already vested, or is otherwise amortised on a straight-line basis over the average period until the benefits become vested.

Actuarial gains and losses arising from experience adjustments or changes in actuarial assumptions are charged or credited in the Consolidated statement of recognised income and expenses in the period in which they arise.

The Group also operates defined contribution pension schemes for a number of UK and non-UK employees. Contributions to defined contribution plans are charged to profit from operations as they become payable.

n) Share-based payments

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 January 2005. Other equity-settled awards which are out of the scope of IFRS, have continued to be accounted for under UK GAAP.

Under IFRS, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a model based on Monte Carlo principles, further details of which are given in note 28. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of AVEVA Group plc ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors of the Group at that date, are based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 14).

Under UK GAAP, the intrinsic value (representing the difference between the market value of the underlying shares at date of grant and the exercise price) of share options granted was recorded as a charge to operating expenses. The charge was spread over the period to which the performance criteria relate or where there was no performance period the charge was spread over the period that the employee became unconditionally entitled to the share options.

o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain the expense relating to any provision is presented in the Income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

p) New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

INTERNATIONAL ACCOUNTING STANDARDS (IAS/IFRSs)		EFFECTIVE DATE*
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
IAS 21	Amendment – Net investment in a Foreign Operation	1 January 2006
IAS 39	Fair Value Option	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendments to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)		EFFECTIVE DATE*
IFRIC 4	Determining whether an arrangement contains a Lease	1 January 2006
IFRIC 5	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006

*Standards applicable to accounting periods commencing on or after the effective date.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Upon adoption of IFRS7 the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 REVENUES

An analysis of the Group's revenue is as follows:

	2006 £000	2005 £000
Annual fees	15,436	14,775
Rental fees	22,224	14,583
Recurring services	3,215	2,997
Total recurring revenues	40,875	32,355
Initial licence fees	17,570	18,171
Services	7,485	6,637
Total revenues	65,930	57,163
Finance revenue	1,498	1,170
	67,428	58,333

Services consist of consultancy and training fees.

6 SEGMENT INFORMATION

For management purposes, the Group is organised on a geographical basis into four main regions: Asia Pacific, Americas, Central Eastern and Southern Europe (CES) and Western Europe, Middle East and Africa (WEMEA). Each of these operating regions are organised and managed separately due to the differing local requirements in each market and therefore these are the primary segments. The Group operates in one business segment; that of the supply of Engineering IT Solutions that supports the creation and operation of major capital assets such as power plants, process plants and ships of both naval and commercial type.

Following the acquisition of Tribon in 2004, the Group has successfully completed the integration of the Tribon operations into the AVEVA Group structure, which has included merging of the intellectual property to develop Vantage Marine, a new product which combines the Tribon and AVEVA Technology, integration and rationalisation of its offices into the AVEVA office network and rationalisation of headcount.

GEOGRAPHICAL SEGMENTS YEAR ENDED 31 MARCH 2006	ASIA PACIFIC £000	WEMEA £000	CES £000	AMERICAS £000	UNALLOCATED £000	TOTAL £000
INCOME STATEMENT						
REVENUE						
Segment revenue	23,675	14,205	16,996	11,054	-	65,930
RESULT						
Segment result	14,314	9,092	9,065	6,405	-	38,876
UNALLOCATED EXPENSES						
Corporate overheads					(13,692)	(13,692)
Research and development costs					(13,949)	(13,949)
PROFIT FROM OPERATIONS						
Finance revenue						1,498
Finance expense						(1,578)
PROFIT BEFORE INCOME TAX						
Income tax expense						(3,079)
NET PROFIT FOR THE YEAR						
ASSETS AND LIABILITIES						
Segment assets	26,029	4,352	13,965	4,214		48,560
Unallocated corporate assets					41,182	41,182
CONSOLIDATED TOTAL ASSETS						
Segment liabilities	(10,382)	(1,710)	(4,818)	(1,793)		(18,703)
Unallocated corporate liabilities					(20,179)	(20,179)
CONSOLIDATED TOTAL LIABILITIES						
OTHER SEGMENT INFORMATION						
Capital expenditure						
Property, plant and equipment	219	35	237	89	446	1,026
Intangible assets	-	-	-	-	38	38
Depreciation	(210)	(18)	(125)	(71)	(502)	(926)
Amortisation	-	-	-	-	(2,276)	(2,276)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 SEGMENT INFORMATION CONTINUED

GEOGRAPHICAL SEGMENTS YEAR ENDED 31 MARCH 2005	ASIA PACIFIC £000	WEMEA £000	CES £000	AMERICAS £000	UNALLOCATED £000	TOTAL £000
INCOME STATEMENT						
REVENUE						
Segment revenue	20,243	12,901	14,664	9,355	-	57,163
RESULT						
Segment result	11,365	8,018	8,510	5,357	-	33,250
UNALLOCATED EXPENSES						
Corporate overheads					(13,529)	(13,529)
Research and development costs					(10,366)	(10,366)
PROFIT FROM OPERATIONS						
Finance revenue						9,355
Finance expense						1,170
						(1,401)
PROFIT BEFORE INCOME TAX						
Income tax expense						9,124
						(4,011)
NET PROFIT FOR THE YEAR						
						5,113
ASSETS AND LIABILITIES						
Segment assets	21,079	5,169	11,652	2,828		40,728
Unallocated corporate assets					38,200	38,200
CONSOLIDATED TOTAL ASSETS						
						78,928
Segment liabilities	(9,553)	(2,094)	(5,146)	(1,775)		(18,568)
Unallocated corporate liabilities					(18,991)	(18,991)
CONSOLIDATED TOTAL LIABILITIES						
						(37,559)
OTHER SEGMENT INFORMATION						
Capital expenditure						
Property, plant and equipment	303	8	73	26	670	1,080
Intangible assets	-	-	-	-	15,080	15,080
Depreciation	(171)	(8)	(77)	(75)	(1,167)	(1,498)
Amortisation	-	-	-	-	(1,658)	(1,658)

7 COST OF SALES AND OTHER OPERATING EXPENSES

Group profit from operations for the year was £13,902,000 (2005 - £10,200,000) before restructuring costs and intangible amortisation (excluding other software) of £2,065,000 (2005 - £3,945,000), adjustment to carrying value of goodwill in respect of utilisation of tax losses of £602,000 (2005 - £nil) and past service credit relating to the UK defined benefit pension scheme of £nil (2005 - £3,100,000).

An analysis of cost of sales and other operating expenses is set out below:

	2006 £000	2005 £000
COST OF SALES		
Cost of sales (excluding restructuring)	21,514	17,855
Restructuring costs	-	366
COST OF SALES	21,514	18,221
OTHER OPERATING EXPENSES		
Selling and distribution costs (excluding restructuring)	21,742	17,829
Restructuring costs	-	959
Selling and distribution costs	21,742	18,788
Administrative expenses (excluding restructuring)	10,837	9,837
Adjustment to carrying value of goodwill in respect of utilisation of tax losses	602	-
Restructuring costs	-	962
Administrative expenses	11,439	10,799
TOTAL OPERATING EXPENSES	33,181	29,587

Restructuring costs relate to the rationalisation and integration of Tribon Solutions AB in 2004 and consist of redundancy and other employment related costs, onerous leases and other associated expenses.

The adjustment to the carrying value of goodwill is in respect of the benefit received from the utilisation of tax losses in the Tribon group since the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PROFIT FROM OPERATIONS

Profit from operations is stated after charging / (crediting):

	2006 £000	2005 £000
Depreciation of owned property, plant and equipment	873	1,427
Depreciation of property, plant and equipment held under finance leases	53	71
Amortisation of intangible assets		
- included in cost of sales	1,724	1,347
- included in administrative expenses	242	32
- included in selling and distribution costs	310	279
Auditors' remuneration		
- audit	355	346
- non-audit	65	441
Research and development costs (included in cost of sales)	13,949	10,366
Staff costs	28,962	20,273
Operating lease rentals – minimum lease payments	1,990	1,677
Loss/(profit) on disposal of property, plant and equipment	6	(35)
Net foreign exchange gains	675	15

Fees paid to the auditors disclosed above included £nil (2005 - £93,000) paid in respect of the acquisition of Tribon Solutions AB in May 2004 and £65,000 (2005 - £348,000) in relation to tax compliance and advisory services. A further £nil (2005 - £505,000) was paid to another major firm of accountants in relation to due diligence and reporting accountant services. These amounts were partly capitalised within goodwill and partly offset against the share premium account. During the year £48,000 (2005 - £nil) was paid to another firm of accountants for valuation services for IFRS purposes.

9 FINANCE REVENUE

	2006 £000	2005 £000
Expected return on pension scheme assets	1,328	1,100
Bank interest receivable	170	70
	1,498	1,170

10 FINANCE EXPENSE

	2006 £000	2005 £000
Bank interest payable and similar charges	60	101
Finance lease interest	11	–
Interest on pension scheme liabilities	1,507	1,300
	1,578	1,401

11 STAFF COSTS

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

	2006 €000	2005 €000
Wages and salaries	22,998	18,143
Social security costs	3,192	2,629
Other pension costs	2,688	(523)
Expense of share-based payments	84	24
	28,962	20,273

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

	2006 NUMBER	2005 NUMBER
Research, development and product support	180	171
Sales, marketing and customer support	213	214
Administration	93	89
	486	474

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 audited section of the Directors' remuneration report on pages 29 to 31 and form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 INCOME TAX EXPENSE

a) Tax on profit

The major components of income tax expense for the years ended 31 March 2006 and 2005 are as follows:

	2006 £000	2005 £000
TAX CHARGED IN CONSOLIDATED INCOME STATEMENT		
<i>Current tax</i>		
UK corporation tax	1,963	–
Adjustments in respect of prior periods	(15)	(6)
	1,948	(6)
Foreign tax	2,902	2,858
Adjustments in respect of prior periods	(14)	518
TOTAL CURRENT TAX	4,836	3,370
<i>Deferred tax</i>		
Origination and reversal of temporary differences (note 25)	(1,757)	641
TOTAL INCOME TAX EXPENSE REPORTED IN CONSOLIDATED INCOME STATEMENT	3,079	4,011

	2006 £000	2005 £000
TAX RELATING TO ITEMS CHARGED OR CREDITED DIRECTLY TO EQUITY		
<i>Deferred tax</i>		
Deferred tax on share options	298	219
Deferred tax on retranslation of intangible assets	40	(51)
Deferred tax on actuarial gain on defined benefit pension scheme	(398)	(270)
TAX CREDIT DIRECTLY TO EQUITY	(60)	(102)

b) Reconciliation of the total tax charge

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

	2006 £000	2005 £000
Tax on Group profit before tax at standard UK corporation tax rate of 30% (2005 – 30%)	3,347	2,737
Effects of:		
Expenses not deductible for tax purposes	861	288
Irrecoverable withholding tax	–	562
Movement on unprovided deferred tax balances	(387)	42
(Lower)/higher tax rates on overseas earnings	(97)	223
Relief for losses previously not recognised	(602)	–
Unrelieved tax losses	64	(472)
Adjustments in respect of prior years	(107)	631
INCOME TAX EXPENSE REPORTED IN THE CONSOLIDATED INCOME STATEMENT	3,079	4,011

The effective tax rate is lower than the UK standard rate due to a number of one-off credits, including the benefit of tax losses and other unrecognised deferred tax assets and the write back of overseas tax previously written off as irrecoverable. After adjusting for these items the effective rate is higher than the UK standard rate due to a significant proportion of the Group's profit being earned in overseas entities, subject to higher rates of tax.

13 DIVIDENDS PAID AND PROPOSED ON EQUITY SHARES

DECLARED AND PAID DURING THE YEAR	2006 £000	2005 £000
Interim dividend paid of 2.2p (2005 - 1.8p) per ordinary share	490	396
Final dividend paid of 4.3p (2005 - 4.0p) per ordinary share	952	878
	1,442	1,274
Proposed for approval by shareholders at the AGM		
Final proposed dividend of 5.2p (2005 - 4.3p) per ordinary share	1,157	948

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 14 July 2006 and has not been included as a liability in these financial statements. If approved at the Annual General Meeting the final dividend will be paid on 1 August 2006 to shareholders on the register at the close of business on 30 June 2006.

14 EARNINGS PER SHARE

The calculations of earnings per share from continuing operations are based on the profit after tax for the year of £8,076,000 (2005 - £5,113,000) and the following weighted average numbers of shares:

	2006 NUMBER	2005 NUMBER
Weighted average number of ordinary shares for basic earnings per share	22,177,542	21,387,290
Effect of dilution: Employee share options	177,463	111,882
Weighted average number of ordinary shares adjusted for the effect of dilution	22,355,005	21,499,172

	2006	2005
Adjusted earnings per share for the year:		
Basic	48.44p	27.86p
Diluted	48.06p	27.71p

Adjusted basic and adjusted diluted earnings per share is calculated based on an adjusted profit after tax of £10,743,000 (2005 - £5,958,000) obtained by adding back restructuring costs of £nil (2005 - £2,287,000), intangible amortisation (excluding other software) of £2,065,000 (2005 - £1,658,000), adjustment to carrying value of goodwill of £602,000 (2005 - £nil) and past service credit relating to the UK defined benefit pension scheme of £nil (2005 - £3,100,000) to the profit after tax for the year of £8,076,000 (2005 - £5,113,000). The denominators used are the same as those detailed above for both basic and diluted earnings per share.

The adjustments made to profit after tax in calculating adjusted basic and diluted earnings per share have not been adjusted for tax in either the current or preceding year.

The Directors believe that adjusted earnings per share is a fairer presentation of the underlying performance of the business.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 GOODWILL

	£000
At 1 April 2005	17,157
Adjustment to carrying value of Tribon Solutions AB	(602)
Exchange differences	57
At 31 March 2006	16,612

On 19 May 2004, the Group completed the acquisition of Tribon Solutions AB. The total consideration was £20,277,000 and goodwill of £14,079,000 arose on the acquisition.

On 31 March 2005, the Group completed the acquisition of Realitywave Inc. The consideration was £3,192,000 and goodwill of £1,855,000 arose on the acquisition.

Goodwill arose on the acquisition of 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.

The adjustment to the carrying value of the Tribon Solutions AB goodwill is due to the post-acquisition utilisation of tax losses of certain Tribon entities.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

YEAR ENDED 31 MARCH 2006	WEMEA £000	ASIA PACIFIC £000	CES £000	AMERICAS £000	TOTAL £000
Tribon Solutions AB	277	7,280	5,574	301	13,432
Realitywave Inc	467	467	467	466	1,867
AEA Technology	-	108	-	976	1,084
Kyokuto Boeki Kaisha	-	229	-	-	229
	744	8,084	6,041	1,743	16,612
YEAR ENDED 31 MARCH 2005	WEMEA £000	ASIA PACIFIC £000	CES £000	AMERICAS £000	TOTAL £000
Tribon Solutions AB	288	7,581	5,805	315	13,989
Realitywave Inc	463	464	464	464	1,855
AEA Technology	-	108	-	976	1,084
Kyokuto Boeki Kaisha	-	229	-	-	229
	751	8,382	6,269	1,755	17,157

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on management's estimates of growth in those specific markets based on past experience and external market information.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the year ending 31 March 2007 and extrapolates cash flows for the following four years based on an average estimated growth rate of between 8% and 15%. Future cash flows are discounted in line with the weighted average cost of capital of approximately 10% pre-tax.

16 INTANGIBLE ASSETS

	TRIBON DEVELOPED TECHNOLOGY £000	REALITYWAVE DEVELOPED TECHNOLOGY £000	TRIBON CUSTOMER RELATIONSHIPS £000	OTHER SOFTWARE £000	PURCHASED SOFTWARE RIGHTS £000	TOTAL £000
COST						
At 1 April 2005	5,885	2,980	6,392	951	3,523	19,731
Additions	–	–	–	38	–	38
Exchange adjustment	(104)	239	(113)	6	–	28
At 31 March 2006	5,781	3,219	6,279	995	3,523	19,797
AMORTISATION						
At 1 April 2005	1,021	–	278	732	1,898	3,929
Charge for the year	1,142	261	310	211	352	2,276
Exchange adjustment	(4)	7	(1)	6	–	8
At 31 March 2006	2,159	268	587	949	2,250	6,213
NET BOOK VALUE						
At 1 April 2005	4,864	2,980	6,114	219	1,625	15,802
At 31 March 2006	3,622	2,951	5,692	46	1,273	13,584

For the purposes of the adjusted earnings per share calculation (note 14), intangible asset amortisation excludes the charge relating to other software of £211,000.

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 software rights are being amortised on a straight-line basis over ten years.

The Tribon developed technology and customer relationships were acquired as part of the acquisition of Tribon Solutions AB on 19 May 2004 and are being amortised over five and twenty years respectively using the straight-line method.

The Realitywave developed technology was acquired as part of the acquisition of Realitywave Inc on 31 March 2005 and is being amortised over twelve years using the straight-line method.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**17 PROPERTY, PLANT AND EQUIPMENT**

	LONG LEASEHOLD LAND AND BUILDINGS AND IMPROVEMENTS £000	COMPUTER EQUIPMENT £000	FIXTURES, FITTINGS AND OFFICE EQUIPMENT £000	MOTOR VEHICLES £000	TOTAL £000
COST					
At 1 April 2005	3,147	6,612	3,077	355	13,191
Additions	19	661	203	143	1,026
Disposals	–	(559)	(127)	(65)	(751)
Exchange adjustment	–	61	(12)	33	82
At 31 March 2006	3,166	6,775	3,141	466	13,548
DEPRECIATION					
At 1 April 2005	358	5,879	1,921	154	8,312
Charge for the year	28	273	518	107	926
Disposals	–	(540)	(99)	(57)	(696)
Exchange adjustment	23	202	(118)	(6)	101
At 31 March 2006	409	5,814	2,222	198	8,643
NET BOOK VALUE					
At 1 April 2005	2,789	733	1,156	201	4,879
At 31 March 2006	2,757	961	919	268	4,905

The net book value of computer equipment includes an amount of £222,000 (2005 - £41,000) in respect of assets held under finance leases.

At the end of the year the Group had capital commitments contracted for but not provided for of £nil (2005 - £23,000).

18 INVESTMENTS

At 31 March 2006 the Group had the following investments, which are held by AVEVA Solutions Limited unless stated and all of which have been included in the consolidation:

	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	Dormant	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 KRW 500,000 each
AVEVA Managed Services Limited	Great Britain	Dormant	100% ordinary shares of £1 each
Cadcentre Limited*	Great Britain	Dormant	100% ordinary shares of £1 each
AVEVA Consulting Limited*	Great Britain	Dormant	100% ordinary shares of £1 each
AVEVA Information Technology India Private Limited	India	Software marketing	100% ordinary shares of 10 Rupees each
AVEVA Limited	Great Britain	Dormant	100% ordinary shares of £1 each
Cadcentre Engineering IT Limited	Great Britain	Dormant	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	Sweden	Software development and marketing	100% of ordinary shares of SEK10 each
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
AVEVA Pte Limited (formerly Tribon Solutions (SEA) Pte Limited)***	Singapore	Software marketing	100% of ordinary shares of SGD 10 each
Tribon dot.com Sweden AB***	Sweden	Dormant	100% of ordinary shares of SEK100 each
Tribon Solutions Consultancy Shanghai Co Limited***	China	Services and training	100% of issued share capital

* 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 control over its financial and operating policies under the terms of the shareholders' agreement.

On 1 January 2005 and 1 July 2005 Tribon Solutions GmbH and Nippon Tribon KK were merged into AVEVA GmbH and AVEVA KK respectively.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
CURRENT		
Trade receivables	23,198	22,503
Prepayments and other receivables	1,488	1,786
Accrued income	2,210	2,023
	26,896	26,312

Trade receivables are non-interest bearing and generally on terms of between thirty and ninety days. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

	2006 £000	2005 £000
NON-CURRENT		
Prepayments and other receivables	268	177

Non-current prepayments and other receivables consist of rental deposits for operating leases.

20 CASH AND CASH EQUIVALENTS

	2006 £000	2005 £000
Cash at bank and in hand	19,454	12,114
Short-term deposits	4,719	–
	24,173	12,114
Bank overdraft	(670)	(903)
Net cash and cash equivalents per cash flow	23,503	11,211

21 TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
CURRENT		
Trade payables	1,195	1,197
Social security, PAYE and VAT	2,350	2,806
Other payables	502	300
Accruals	7,653	7,884
Deferred income	12,492	11,223
	24,192	23,410

Trade payables are non-interest bearing and are normally settled on terms of between thirty and sixty days. Social security, PAYE and VAT are non-interest bearing and are normally settled on terms of between nineteen and thirty days. The Directors consider that the carrying amount of trade and other payables approximates their fair value.

22 FINANCIAL LIABILITIES

	2006 £000	2005 £000
CURRENT		
Fair value of forward contracts	25	–
Bank overdrafts	670	903
Current obligations under finance leases	137	41
	832	944
NON-CURRENT		
Non-current obligations under finance leases	265	–

Borrowing facilities

The Group had a committed UK borrowing overdraft facility and revolving loan facility at 31 March 2006 of £3,000,000 and £3,000,000 (2005 - £3,000,000 and £3,000,000) of which £700,000 of the overdraft had been drawn down at 31 March 2006. The Group has right of offset against cash balances held. All conditions precedent in respect of the overdrafts and loan had been met.

In addition the Group had a committed overdraft facility of SEK 30,000,000 (£2,200,000) at 31 March 2006 of which £670,000 (2005-£903,000) had been drawn down.

The bank overdrafts are secured by floating charges over certain of the Group's assets.

23 OBLIGATIONS UNDER LEASES

The Group uses finance leases to acquire computer equipment and certain other assets.

Future minimum lease payments under finance leases are as follows:

	2006 £000	2005 £000
Future minimum payments due:		
Not later than one year	157	48
After one year but not more than five years	278	–
Less: finance charges associated to future periods	(33)	(7)
	402	41
The present value of minimum lease payments is analysed as follows:		
Not later than one year	137	41
After one year but not more than five years	265	–
	402	41

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 OBLIGATIONS UNDER LEASES (CONTINUED)

At 31 March 2006 the Group had the following future minimum rentals payable under non-cancellable operating leases as follows:

	2006		2005	
	LAND AND BUILDINGS £000	PLANT AND MACHINERY £000	LAND AND BUILDINGS £000	PLANT AND MACHINERY £000
Not later than one year	1,144	332	1,030	327
After one but not more than five years	2,115	305	2,429	370
	3,259	637	3,459	697

The Group has entered into commercial leases on certain properties, motor vehicles and items of equipment. These leases have a duration of between one and five years. Certain property leases contain an option for renewal.

24 FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash and short-term deposits, bank overdrafts, finance leases and forward foreign exchange contracts. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into forward currency contracts to manage currency risks arising from the Group's operations.

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, foreign currency risk and credit risk. The Board reviews and agrees policies for managing such risks on a regular basis as summarised below:

a) 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.

b) Foreign currency risk

Foreign currency risk arises from the Group undertaking a significant number of foreign currency transactions in the course of operations. As a result the value of the Group's non-sterling revenue, purchases, financial assets and liabilities and cash flows can be affected significantly by movements in exchange rates and in US Dollar and Euro rates in particular. 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 has investments in foreign operations whose net assets are exposed to currency translation risk. There is currently no requirement for borrowings and therefore this risk is not managed through borrowings denominated in the relevant foreign currencies. Gains and losses arising from these structural currency exposures are recognised in the Consolidated statement of total recognised income and expenses.

c) Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

The exposure to credit risk is mitigated where necessary by either letters of credit or payments in advance. Counterparties for cash deposits are limited to financial institutions which have a high credit rating.

d) Interest rate profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the Group as at 31 March is as follows:

YEAR ENDED 31 MARCH 2006

	WITHIN 1 YEAR £000	1-2 YEARS £000	2-3 YEARS £000	TOTAL £000
FIXED RATE				
Obligations under finance leases	(137)	(140)	(125)	(402)
FLOATING RATE				
Cash	24,173	-	-	24,173
Bank overdrafts	(670)	-	-	(670)

YEAR ENDED 31 MARCH 2005

	ALL WITHIN 1 YEAR £000
FIXED RATE	
Obligations under finance leases	(41)
FLOATING RATE	
Cash	12,114
Bank overdrafts	(903)

e) Fair values

The book values of the Group's financial assets and liabilities consist of bank and cash balances of £24,173,000 (2005 - £12,114,000), bank overdraft of £670,000 (2005 - £903,000), finance leases of £402,000 (2005 - £41,000) and forward foreign exchange contracts of £25,000 (2005 - £nil).

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

24 FINANCIAL INSTRUMENTS (CONTINUED)

f) Hedging activities

The Group's earnings and liquidity are affected by fluctuations in foreign currency exchange rates, principally the US Dollar and Euro, reflecting the fact that a significant proportion of the Group's revenues and cash receipts are denominated in these currencies whilst a large proportion of its costs, such as research and development, are in Sterling and Swedish Kroner.

The Group reduces these exchange risks, where possible, by currency hedging. The Group enters into specific forward foreign exchange contracts for individually significant revenue contracts when the timing of forecast cash flows is reasonably certain. In addition, the Group enters into forward foreign exchange contracts to sell US Dollars and Euro to match forecast cash flows arising from its recurring revenue base. These are renewed on a revolving basis as required.

The Group has not applied hedge accounting during the current year and therefore all gains and losses on forward exchange contracts have been included in the Consolidated income statement.

At 31 March 2006 the Group held the following forward exchange contracts. The terms of these contracts are as follows:

FORWARD CONTRACTS TO SELL	MATURITY	EXCHANGE RATE
US\$ 2,000,000	30 June 2006	£1 / \$1.7664
US\$ 1,000,000	29 September 2006	£1 / \$1.7691

At 31 March 2005 the Group held the following forward exchange contracts. The terms of these contracts are as follows:

FORWARD CONTRACTS TO SELL	MATURITY	EXCHANGE RATE
US\$ 554,000	15 April 2005	SEK1 / \$0.1455
Euro 2,240,000	15 April 2005	SEK1 / €0.1102
US\$ 510,500	17 May 2005	SEK1 / \$0.1455
Euro 500,000	17 May 2005	SEK1 / €0.1102
Euro 592,000	15 June 2005	SEK 1/ €0.1102
US\$ 1,000,000	30 June 2005	£1 / \$1.8497

The Group does not hedge any foreign net asset investment using foreign currency loans, as there is currently no requirement for external borrowings.

The Group has applied IAS 32 and IAS 39 from 1 April 2005 in accordance with the transitional rules under IFRS 1. The Group is obliged to present the following additional comparative information in accordance with FRS 13 "Derivatives and other financial instruments".

The Group has financial assets denominated in both Sterling and foreign currency deposits. These comprise cash balances, overdrafts and deposits at short-term rates. Details of the financial assets at 31 March 2005 are set out below:

	FLOATING RATE FINANCIAL ASSETS £000	FINANCIAL ASSETS ON WHICH NO INTEREST IS EARNED £000	TOTAL £000
Sterling	(931)	93	(838)
US Dollar	2,156	263	2,419
Euro	4,466	3	4,469
Japanese Yen	1,342	520	1,862
Norwegian Kroner	167	-	167
Korean Won	2,432	-	2,432
Malaysian Ringgit	383	-	383
Indian Rupee	68	-	68
Australian Dollar	893	-	893
Swedish Kroner	14	23	37
Chinese Yuan Renminbi	121	12	133
Hong Kong Dollar	-	25	25
Other Currencies	5	59	64
TOTAL	11,116	998	12,114

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

In addition, the Group had financial liabilities at 31 March 2005 consisting of a Swedish Kroner bank overdraft facility of which £903,000 had been drawn down and finance lease liabilities of £41,000. The overdraft and the finance lease liabilities bear interest at 3.23% and 12% respectively.

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 Consolidated income statement. 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 these exposures (including those arising on short-term receivables and payables) were as follows:

NET FOREIGN CURRENCY MONETARY ASSETS/(LIABILITIES)

FUNCTIONAL CURRENCY OF GROUP OPERATION	GBP £000	US\$ £000	EURO £000	SEK £000	SNG\$ £000	JPY £000	AUS\$ £000	TOTAL £000
Sterling	-	1,875	805	-	-	563	-	3,243
Korean Won	-	949	-	473	-	-	-	1,422
Malaysian Ringgit	-	684	246	-	10	-	-	940
Swedish Kroner	(103)	398	3,048	-	-	(74)	-	3,269
	(103)	3,906	4,099	473	10	489	-	8,874

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the current and preceding year:

	ACCELERATED CAPITAL ALLOWANCES £000	LAND AND BUILDINGS* £000	RETIREMENT BENEFIT OBLIGATIONS £000	INTANGIBLE ASSETS £000	SHARE OPTIONS £000	OTHER £000	TOTAL £000
At 1 April 2005	(161)	(256)	1,462	(4,303)	311	331	(2,616)
Charge to income statement	(208)	7	(25)	519	25	1,439	1,757
Charge to equity	-	-	(398)	-	298	40	(60)
At 31 March 2006	(369)	(249)	1,039	(3,784)	634	1,810	(919)

* A deferred tax liability arises on the difference between the tax base and the accounting base of a long leasehold property that was acquired in 1994.

Other deferred tax assets consist principally of deferred tax on bad debt provision, staff bonus accrual and timing differences in respect of revenue recognition.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2006 £000	2005 £000
Deferred tax liabilities	(3,795)	(4,354)
Deferred tax assets	2,876	1,738
	(919)	(2,616)

At the Balance sheet date, the Group has unused tax losses of £2,317,000 (2005 - £5,833,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams. Included in unrecognised deferred tax assets are losses of £2,317,000 (2005 - £3,199,000) that will expire over the years 2009 to 2013 (2005 - 2006 to 2012).

At the Balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of overseas subsidiaries for which deferred tax liabilities have not been recognised was £14,958,000 (2005 - £9,840,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by AVEVA Group plc to its shareholders.

26 PROVISIONS

	SWEDISH PENSION PROVISION £000	SEVERENCE PAY PROVISION £000	RESTRUCTURING PROVISION £000	TOTAL £000
At 1 April 2005	226	232	824	1,282
Arising during the year	-	76	-	76
Utilised	(108)	(23)	(642)	(773)
Reversal of unused amounts	(113)	-	(156)	(269)
Exchange adjustment	(5)	9	(26)	(22)
At 31 March 2006	-	294	-	294

	2006 £000	2005 £000
Included in current liabilities	-	1,050
Included in non-current liabilities	294	232
	294	1,282

a) Swedish pension provision

Prior to the acquisition by AVEVA, AVEVA AB had 5 employees who were members of an unfunded defined benefit pension scheme. These members agreed to join the industry wide ITP scheme prior to the acquisition by AVEVA, at which point the liabilities for the defined benefit scheme were fixed. It was agreed that the liabilities would be transferred over to Alecta, the insurance company which administers the ITP scheme over a period of five years to February 2006. The provision on the Consolidated balance sheet in respect of the pension liabilities to be transferred was £nil (2005 - £226,000).

b) Severance pay provision

South Korean employees are entitled to a lump sum on severance of their employment equal to one month's salary for each year of service. All employees are eligible. At 31 March 2006 the provision was £294,000 (2005 - £232,000).

c) Restructuring provision

The restructuring provision relates to the rationalising of the operations of the Tribon Solutions AB Group following the acquisition in 2004. The provision includes costs for headcount reductions, reorganisation of operations and office closures.

27 RETIREMENT BENEFIT OBLIGATIONS

The movement on the provision for retirement benefit obligations was as follows:

	UK DEFINED BENEFIT SCHEME £000	GERMAN DEFINED BENEFIT SCHEME £000	TOTAL £000
At 31 March 2005	4,872	404	5,276
Current service cost	1,073	-	1,073
Interest on pension scheme liabilities	1,485	22	1,507
Expected return on pension scheme assets	(1,328)	-	(1,328)
Actuarial gain	(1,328)	-	(1,328)
Employer contributions	(1,314)	(27)	(1,341)
Exchange difference	-	2	2
At 31 March 2006	3,460	401	3,861

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

a) UK defined benefit scheme

The Group operates a UK defined benefit pension plan providing benefits based on final pensionable pay which is funded. 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. Pensions are payable to dependants on death in retirement and a lump sum is payable if death occurs in service. There is an insurance policy in place which covers this liability. 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, Mercer Human Resourcing Consulting, at rates which are calculated to be sufficient to meet the future liabilities of the scheme using the projected unit credit method. The employees' contributions are fixed as a percentage of salary, the balance being made up by the employer. Scheme assets are stated at their market values at the respective Balance sheet dates.

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

The principal assumptions used in determining the pension valuation were as follows:

	2006 %	2005 %
Main assumptions:		
Rate of salary increases	4.75	4.75
Rate of increase of pensions in payment	2.75	2.75
Rate of increase of pensions in deferment	2.75	2.75
Discount rate	4.90	5.40
Inflation assumption	2.75	2.75
Expected rate of return on scheme assets:		
Equities	6.50	6.70
Bonds	4.50	4.70
Properties	N/A	6.70
Other	3.75	3.75

For the years ended 31 March 2005 and 2006, the following mortality assumptions have been used:

Pre-retirement (males)	19.4 years
Pre-retirement (females)	22.4 years
Post retirement (male pensioners)	17.8 years
Post retirement (female pensioners)	20.7 years
Post retirement (non-retired males)	19.4 years
Post retirement (non-retired females)	22.4 years

Member contributions were 7.5% (2005 – 7.5%) of pensionable salary and Company contributions were £1,314,000 (2005 – £1,127,000). The total contributions in 2006/2007 are expected to be approximately £1,300,000.

The assets and liabilities of the scheme at 31 March 2006 were:

	2006 £000	2005 £000
Equities	23,657	17,100
Bonds	3,693	1,700
Properties	–	100
Other	417	1,712
Total fair value of assets	27,767	20,612
Present value of scheme liabilities	(31,227)	(25,484)
Net pension liability	(3,460)	(4,872)

The amounts recognised in the Consolidated income statement and Consolidated statement of recognised income and expenses for the year are analysed as follows:

	2006 £000	2005 £000
RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT		
Current service cost	1,073	1,300
Past service credit	–	(3,100)
Total operating charge/(credit)	1,073	(1,800)
Finance revenue		
Expected return on pension scheme assets	(1,328)	(1,100)
Finance expense		
Interest on pension scheme liabilities	1,485	1,300
TAKEN TO CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES		
Actual return pension scheme assets	5,841	3,029
Expected return on pension scheme assets	(1,328)	(2,329)
Experience loss on liabilities	4,513	700
Changes in assumptions	–	800
	(3,185)	(600)
Actuarial gain recognised in Consolidated statement of recognised income and expenses	1,328	900

Of the total operating charge for the year of £1,073,000 (2005 – credit of £1,800,000), £516,000 (2005 – credit of £1,015,000) has been included in cost of sales, £382,000 (2005 – credit of £300,000) has been included in administrative expenses and £175,000 (2005 – credit of £485,000) has been included in selling and distribution costs. Actuarial gains and losses have been reported in the Consolidated statement of total recognised income and expenses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Analysis of movements in the present value of the defined benefit pension obligations during the year are analysed as follows:

	2006 £000	2005 £000
At 1 April	25,484	25,000
Current service costs (including employee contributions)	1,509	1,683
Interest on pension scheme liabilities	1,485	1,300
Benefits paid	(411)	(402)
Premiums paid	(25)	(25)
Actuarial loss/(gain)	3,185	(200)
Transfers in	-	1,228
Past service credit	-	(3,100)
At 31 March	31,227	25,484

The above defined benefit obligation arises from a plan that is wholly funded.

Changes in the fair value of plan assets are as follows:

	2006 £000	2005 £000
At 1 April	20,612	16,500
Expected return	1,328	1,100
Contributions by employer	1,314	1,127
Contributions by employees	436	383
Benefits paid	(411)	(402)
Premiums paid	(25)	(25)
Actuarial gains	4,513	700
Transfers in	-	1,229
At 31 March	27,767	20,612

Transfers relate to the transfers of assets and liabilities relating to certain employees who joined the Group as part of an acquisition in 1999 and who have transferred their pension rights into the Scheme. Whilst these members remain employee members of the Scheme, their pension credits continue to be linked to their final pensionable salaries.

The history of experience adjustments is as follows:

	2006 £000	2005 £000
Fair value of scheme assets	27,767	20,612
Present value of defined benefit obligations	(31,227)	(25,484)
Deficit in the scheme	(3,460)	(4,872)
Experience adjustments on scheme liabilities	-	800
Experience adjustments on scheme assets	4,513	700

The cumulative amount of actuarial gains and losses since 1 April 2004 recognised directly within equity was £2,228,000 (2005 - £900,000). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £8,500,000 in the Group is attributable to actuarial gains and losses since inception of the pension scheme. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Consolidated statement of recognised income and expenses before 1 April 2004.

b) German defined benefit scheme

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. Benefit payments are made as they fall due. An IAS 19 valuation of the pension liability has been carried out using the following assumptions:

	2006	2005
Rate of increase of pension in payment	0%	0%
Discount rate	4.0%	5.5%
Inflation assumption	0%	0%
Mortality	14 years	14 years

The service cost and interest on pension scheme liabilities for the year was £nil (2005 - £nil) and £22,000 (2005 - £17,000) respectively. The IAS 19 valuation of the pension liability at 31 March 2006 was £401,000 (2005 - £404,000) which has been included in provisions on the Consolidated balance sheet.

Analysis of movements in the present value of the defined benefit pension obligations during the year are analysed as follows:

	2006 £000	2005 £000
At 1 April	404	423
Interest on pension scheme liabilities	22	17
Employer contributions	(27)	(42)
Exchange adjustment	2	6
At 31 March	401	404

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

c) Other retirement schemes

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 2006, Alecta's surplus in the form of collective funding level was 141.7% (2005 - 131%). The total cost charged to income was £532,000 (2005 - £545,000).

d) Defined contribution schemes

The Group operates defined contribution retirement schemes for its UK, US, German, French, Norwegian and Asian employees. The assets of the schemes are held separately from those of the Group. The total cost charged to income of £1,083,000 (2005 -£732,000) represents contributions payable to these schemes by the Group at the rates specified in the rules of the plans.

28 SHARE-BASED PAYMENT PLANS

The Group operates two equity settled share option schemes, the AVEVA Group plc Long-Term Incentive Plan ("LTIP") and the AVEVA Group plc Employee and Executive Share Option Plan ("Employee Scheme" and "Executive Scheme" respectively). Details of these plans are set out below.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options for both plans during the year:

	2006 NUMBER	2006 WAEP	2005 NUMBER	2005 WAEP
Outstanding at start of year ¹	508,500	468.7	624,700	471.8
Granted during year	85,177	796.0	30,000	10.0
Forfeited during year	(3,550)	440.9	-	-
Exercised during year ²	(214,950)	489.0	(131,550)	384.6
Expired during year	(800)	179.2	(14,650)	416.8
Outstanding at end of year	374,377	351.4	508,500	468.7
Exercisable at end of year	259,200	497.4	478,500	506.1

1 Included within this balance are options over 259,200 (2005 - 478,500) shares that have not been recognised in accordance with IFRS 2 as the options were granted prior to 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

2 The weighted average share price at the date of exercise for the options exercised is £7.81 (2005 - £5.92).

Share options have been granted under both plans to certain employees of the Group and remain outstanding as follows:

DATE OF GRANT	SHARE OPTION PLAN	NUMBER OF OPTIONS 2006	NUMBER OF OPTIONS 2005	EXERCISE PRICE (P)
16 March 1999	Employee Scheme	–	4,000	179.2
30 March 2000	Employee Scheme	8,900	30,400	342.5
19 January 2001	Employee Scheme	4,934	37,719	524.7
19 January 2001	Executive Scheme	174,866	279,581	524.7
12 July 2001	Employee Scheme	30,256	57,812	479.5
12 July 2001	Executive Scheme	40,244	43,988	479.5
6 August 2001	Executive Scheme	–	25,000	463.3
1 July 2004	LTIP	30,000	30,000	10.0
20 July 2005	Employee Scheme	3,768	–	796.0
20 July 2005	Executive Scheme	81,409	–	796.0
		374,377	508,500	

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

The weighted average remaining contractual life for the options outstanding at 31 March 2006 is 3.2 years (2005 - 2.9 years).

The average fair value of options granted during the year was £2.67 (2005 - £3.14).

The range of exercise prices for options outstanding at the end of the year was £0.10 to £7.96 (2005 - £0.10 to £5.247).

The Group recognised total expenses of £84,000 and £24,000 related to equity settled share-based payment transactions in the year ended 31 March 2006 and 2005 respectively.

Details of the share option plans are as follows:

a) Long Term Incentive Plan (LTIP)

Share options were granted under the LTIP to certain senior executives on 1 July 2004. The exercise price of the options is equal to the nominal value of the underlying ordinary shares, 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 conditions will be measured three years from the date of grant and there is no allowance for retesting. The contractual life of each option granted is seven years and the options become exercisable three years after the date of grant. The options lapse if the option holder leaves the employment of the Group with certain specific exceptions.

The options 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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28 SHARE-BASED PAYMENT PLANS CONTINUED

The fair value of an award of shares under the LTIP has been adjusted to take into account Total Shareholder Return (TSR) as a market-based performance condition, using a pricing model that takes into account expectations about volatility and the correlation of share price returns in the comparator group. The model follows similar principles as the Monte Carlo approach and takes into account that TSR vesting and share price performance are not independent. The following table lists the inputs to the model used for grants made under the LTIP on 1 July 2004:

	2005
Dividend yield	1.23%
Expected volatility	30.0%
Risk-free interest rate	5.09%
Expected life of the option	3 years
Weighted average share price	£0.10

b) Employee and executive share option plan

Options have also been granted under the AVEVA Group plc Employee Share Option Scheme and the AVEVA Group plc Executive Share Option Scheme.

The options are normally exercisable in full or in part between the third and seventh anniversaries of the date of grant. The options will lapse if not exercised by the seventh anniversary from the date of grant. All options 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 fair value of these options is measured at grant date using the Black Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the year ended 31 March 2006. There were no grants under this scheme in 2005.

	2006
Dividend yield	0.90%
Expected volatility	33.44%
Risk-free interest rate	4.21%
Expected life of the option	5 years
Weighted average share price	£7.96

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

29 SHARE CAPITAL

	2006 £000	2005 £000
Authorised		
30,000,000 (2005 – 30,000,000) ordinary shares of 10p each	3,000	3,000
Allotted, called-up and fully paid		
22,251,567 (2005 – 22,036,617) ordinary shares of 10p each	2,225	2,204

Details of the shares issued during the year and the prior year were as follows:

	2006 NUMBER	2006 £000	2005 NUMBER	2005 £000
At 1 April	22,036,617	2,204	17,470,300	1,747
Exercise of share options	214,950	21	131,550	13
Placing and open offer	-	-	3,645,112	365
Acquisition of Tribon Solutions AB	-	-	789,655	79
At 31 March	22,251,567	2,225	22,036,617	2,204

DATE OF ISSUE	NUMBER OF SHARES 2006	NOMINAL VALUE 2006 £	SHARE PREMIUM 2006 £	MARKET PRICE
20 April 2005	3,600	360	15,258	£7.12
17 May 2005	4,200	420	16,431	£6.67
16 June 2005	49,900	4,990	250,651	£7.07
15 July 2005	112,850	11,285	557,842	£7.60
22 September 2005	3,200	320	9,648	£9.05
20 October 2005	6,500	650	30,518	£8.54
9 November 2005	6,650	665	26,906	£9.63
15 December 2005	20,050	2,005	92,274	£9.12
19 January 2006	1,200	120	5,634	£10.12
24 February 2006	6,800	680	24,434	£10.51
	214,950	21,495	1,029,596	

DATE OF ISSUE	NUMBER OF SHARES 2005	NOMINAL VALUE 2005 £	SHARE PREMIUM 2005 £	MARKET PRICE
19 May 2004	3,645,112	364,511	16,876,489	£4.73
19 May 2004	789,455	78,946	3,919,644	£5.06
10 June 2004	56,550	5,655	150,004	£5.25
16 July 2004	1,200	120	3,990	£5.34
13 September 2004	1,200	120	4,620	£5.25
16 December 2004	60,600	6,060	287,649	£6.43
20 January 2005	3,600	360	11,970	£6.64
23 February 2005	7,600	760	31,480	£6.71
16 March 2005	800	80	3,080	£6.73
	4,566,117	456,612	21,288,926	

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 RECONCILIATION OF MOVEMENTS IN EQUITY

	SHARE CAPITAL £000	SHARE PREMIUM £000	MERGER RESERVE £000	OTHER RESERVES CUMULATIVE TRANSLATION ADJUSTMENTS £000	TOTAL £000	RETAINED EARNINGS £000	TOTAL EQUITY £000
At 1 April 2004	1,747	8,210	-	-	-	6,018	15,975
Total recognised income and expense for the year	-	-	-	242	242	5,911	6,153
Issue of share capital	457	16,113	3,921	-	3,921	-	20,491
Share-based payments	-	-	-	-	-	24	24
Equity dividends	-	-	-	-	-	(1,274)	(1,274)
At 31 March 2005	2,204	24,323	3,921	242	4,163	10,679	41,369
Total recognised income and expense for the year	-	-	-	454	454	9,344	9,798
Issue of share capital	21	1,030	-	-	-	-	1,051
Share-based payments	-	-	-	-	-	84	84
Equity dividends	-	-	-	-	-	(1,442)	(1,442)
At 31 March 2006	2,225	25,353	3,921	696	4,617	18,665	50,860

a) Cumulative translation adjustment reserve

The cumulative translation adjustment reserve is used to record exchange differences which arose from 1 April 2004 from the translation of the financial statements of foreign subsidiaries.

b) Merger reserve

This represents the difference between the fair value and the nominal value of shares issued in connection with the acquisition of AVEVA AB in 2004.

31 ACQUISITIONS

The Group made the following acquisitions in the comparative period:

a) 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. This purchase is accounted for as an acquisition.

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.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

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
NON-CURRENT ASSETS				
Intangible assets	3,008	(3008) i	-	-
Other intangible assets	-	-	12,100 ii	12,100
Property, plant and equipment	575	-	-	575
Other assets	105	-	-	105
Deferred tax asset	-	-	794 viii	794
CURRENT ASSETS				
Trade and other receivables	4,961	(972) iii	(542) iv	3,447
Cash	708	-	-	708
TOTAL ASSETS	9,357	(3,980)	12,352	17,729
CURRENT LIABILITIES				
Bank overdraft	1,498	-	-	1,498
Accounts payable	307	-	-	307
Other payables	157	-	653 v	810
Accruals and deferred income	4,862	-	(254) vi	4,608
NON-CURRENT LIABILITIES				
Deferred tax liabilities	-	-	3,388 ii	3,388
Pensions	608	-	312 vii	920
TOTAL LIABILITIES	7,432	-	4,099	11,531
NET ASSETS ACQUIRED				
Goodwill arising on acquisition				6,198
				14,079
				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 recognition of developed technology and customer relationship intangible assets and corresponding deferred tax liability

iii change in revenue recognition for two specific contracts

iv write down of receivables following reassessment of specific bad debt provision

v provision for additional potential tax liabilities

vi adjustment to accruals

vii adjustment to pension scheme liability provision

viii recognition of a deferred tax asset in respect of tax losses

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 ACQUISITIONS CONTINUED

The methods and significant assumptions involved in valuing the identifiable intangible assets are described below:

Developed technology

Developed technology of £5,800,000 consisted of source code and other intellectual property that are the core parts of the technology. At the date of acquisition, the developed technology was complete and had reached technological feasibility. Any costs incurred in the future will relate to the ongoing maintenance of the developed technology and will be expensed as incurred. To estimate the fair value of the developed technology, a relief from royalty method was used with a post-tax discount rate of 14%, which discounts the present value of future attributable cash flows. Developed technology is being amortised over its estimated useful life of five years.

Customer relationships

Customer relationships of £6,800,000 represented the fair value of existing customer relationships and contracts. To estimate the fair value of the customer base, an income-based approach was used, namely the excess earnings methodology using a post tax discount rate of 16%. Customer relationships are being amortised over its estimated useful life of twenty years.

Shares issued as consideration were fair valued based on the market price of the shares on the date the acquisition completed.

AVEVA AB earned a profit after tax of £4,708,000 from the date of acquisition to 31 March 2005. The results of operation in 2005, as if the acquisition was made at the beginning of the period, are as follows:

	£000
Revenue	14,439
Profit after tax	2,020

b) Acquisition of Realitywave Inc

On 31 March 2005 the Group completed the acquisition of the entire issued share capital 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 £1,855,000 arising.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

The following table sets out the book and fair values of the identifiable assets and liabilities acquired by the Group:

	BOOK VALUE £000	FAIR VALUE ADJUSTMENTS £000	FAIR VALUE £000
NON-CURRENT ASSETS			
Tangible	7	-	7
Intangible	-	2,980	2,980
CURRENT ASSETS			
Trade and other receivables	24	-	24
Cash	23	-	23
TOTAL ASSETS	54	2,980	3,034
CURRENT LIABILITIES			
Accruals	273	-	273
Deferred revenue	143	-	143
NON-CURRENT LIABILITIES			
Deferred tax liability	-	1,281	1,281
TOTAL LIABILITIES	416	1,281	1,697
NET ASSETS ACQUIRED			1,337
Goodwill arising on acquisition			1,855
			3,192
SATISFIED BY:			
Cash			3,140
Costs associated with acquisition			52
			3,192

The methods and significant assumptions involved in valuing the identifiable intangible assets are described below:

Developed technology

Developed technology of £2,980,000 consisted of patents, source code and other intellectual property. At the date of acquisition, the developed technology was complete and had reached technological feasibility. Any costs incurred in the future will relate to the ongoing maintenance of the developed technology and will be expensed as incurred. To estimate the fair value of the developed technology, a relief from royalty method was used with a post-tax discount rate of 24%, which discounts the present value of future attributable cash flows. Developed technology is being amortised over its estimated useful life of twelve years.

Realitywave did not contribute to the profits after tax in 2005 because it was acquired on 31 March 2005. The results of operation in 2005, as if the acquisition was made at the beginning of the period, are as follows:

	£000
Revenue	272
Loss after tax	(901)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. In addition to their salaries, the Group also provide non-cash benefits to Directors and contribute to a defined benefit pension plan on their behalf. The Directors also participate in the Group's share option schemes. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 27 to 31.

	2006 £000	2005 £000
Short-term employee benefits	857	725
Share-based payments	56	16
	913	741

33 TRANSITION TO IFRSs

For all periods up to and including the year ended 31 March 2005, the Group prepared its financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 March 2006, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Accordingly, the Group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 April 2005 and the significant accounting policies meeting those requirements are described in note 4. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 April 2004, the Group's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 April 2004 and its previously published UK GAAP financial statements for the year ended 31 March 2005.

The following notes explain the impact that the adoption of IFRS has had on the Group's consolidated results.

IFRS 1 exemptions

The Group has applied IFRS 1, "First Time Adoption of International Financial Reporting Standards" to provide a starting point for reporting under IFRS. The Group's date of transition to IFRS is 1 April 2004 and all comparative information in the financial statements is restated to reflect the Group's adoption of IFRS, except where otherwise required or permitted under IFRS 1. IFRS 1 requires an entity to comply with each IFRS effective at the reporting date (31 March 2006) for its first IFRS financial statements. As a general principle, IFRS 1 requires the standards effective at the reporting date to be applied retrospectively. However, retrospective application is prohibited in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of the particular transaction is already known. A number of optional exemptions from full retrospective application of IFRSs are granted. The Group has elected to take the following options elections under IFRS 1:

i. Business combinations that occurred before the date of transition (1 April 2004)

The Group has elected not to apply IFRS 3, "Business Combinations" retrospectively to business combinations that took place before the date of transition. As a result, the carrying amount of goodwill in the opening IFRS Balance sheet (£1,313,000) is that recorded under UK GAAP at the date of transition.

ii. Employee benefits - actuarial gains and losses

The Group has elected to recognise all cumulative actuarial gains and losses in relation to the UK defined benefit pension scheme at the date of transition.

iii. Share-based payments

The Group has elected to apply IFRS 2, "Share-based payments" to share options granted after 7 November 2002 but not fully vested at 1 January 2005 and not to retrospectively apply the standard to share options granted prior to 7 November 2002.

iv. Financial instruments

The Group has elected not to apply IAS 32, "Financial instruments: Disclosure and Presentation" or IAS 39, "Financial Instruments: Recognition and Measurement", therefore the comparative information for the year ended 31 March 2005 presented has not been restated from UK GAAP. The Group has applied these standards from 1 April 2005.

v. Cumulative translation differences

Under IFRS 1, the Group is not required to record cumulative translation differences arising prior to the transition date. In utilising this exemption, all cumulative translation differences are deemed to be zero as at 1 April 2004 and all subsequent disposals shall exclude any translation differences arising prior to the date of transition.

Group reconciliation of equity as at 31 March 2004 was as follows:

	NOTES	UK GAAP £000	IFRS ADJUSTMENTS £000	IFRS £000
NON-CURRENT ASSETS				
Goodwill		1,313	-	1,313
Other intangible assets	(e)	1,977	456	2,433
Property, plant and equipment	(e)	5,046	(456)	4,590
Deferred tax assets	(j)	-	2,108	2,108
		8,336	2,108	10,444
CURRENT ASSETS				
Inventories		217	-	217
Trade and other receivables		18,830	-	18,830
Cash and cash equivalents		8,713	-	8,713
		27,760	-	27,760
TOTAL ASSETS		36,096	2,108	38,204
EQUITY				
Issued share capital		1,747	-	1,747
Share premium		8,210	-	8,210
Retained earnings		11,613	(5,595)	6,018
TOTAL EQUITY		21,570	(5,595)	15,975
CURRENT LIABILITIES				
Finance lease obligations		71	-	71
Trade and other payables	(h), (k)	13,318	(462)	12,856
Current tax liabilities		761	-	761
		14,150	(462)	13,688
NON-CURRENT LIABILITIES				
Deferred tax liabilities	(j)	335	(335)	-
Finance lease obligations		41	-	41
Retirement benefit obligations	(f)	-	8,500	8,500
		376	8,165	8,541
TOTAL EQUITY AND LIABILITIES		36,096	2,108	38,204

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33 TRANSITION TO IFRSs CONTINUED

Group reconciliation of equity as at 31 March 2005 was as follows:

	NOTES	UK GAAP £000	IFRS ADJUSTMENTS £000	IFRS £000
NON-CURRENT ASSETS				
Goodwill	(a), (b), (c)	26,395	(9,238)	17,157
Other intangible assets	(a), (b), (d), (e)	1,625	14,177	15,802
Property, plant and equipment	(e)	5,099	(220)	4,879
Deferred tax assets	(j)	153	1,585	1,738
Other receivables		177	-	177
		33,449	6,304	39,753
CURRENT ASSETS				
Trade and other receivables		26,312	-	26,312
Current tax assets		749	-	749
Cash and cash equivalents		12,114	-	12,114
		39,175	-	39,175
TOTAL ASSETS		72,624	6,304	78,928
EQUITY				
Issued share capital		2,204	-	2,204
Share premium		24,323	-	24,323
Other reserves		3,921	242	4,163
Retained earnings		13,122	(2,443)	10,679
TOTAL EQUITY		43,570	(2,201)	41,369
CURRENT LIABILITIES				
Trade and other payables	(h), (k)	24,131	(721)	23,410
Financial liabilities		944	-	944
Current tax liabilities		2,293	-	2,293
Provisions	(i)	824	226	1,050
		28,192	(495)	27,697
NON-CURRENT LIABILITIES				
Deferred tax liabilities	(j)	-	4,354	4,354
Provisions	(i)	-	232	232
Retirement benefit obligations	(f)	862	4,414	5,276
		862	9,000	9,862
TOTAL EQUITY AND LIABILITIES		72,624	6,304	78,928

Group reconciliation of Consolidated income statement for year ended 31 March 2005 was as follows:

	NOTES	UK GAAP £000	IFRS ADJUSTMENTS £000	IFRS £000
REVENUE	(i)	57,543	(380)	57,163
Cost of sales	(c), (d), (f)	(19,079)	858	(18,221)
GROSS PROFIT		38,464	478	38,942
OPERATING EXPENSES				
Selling and distribution costs	(d), (f)	(19,293)	505	(18,788)
Administrative expenses	(c), (f), (g), (h)	(13,376)	2,577	(10,799)
TOTAL OPERATING EXPENSES		(32,669)	3,082	(29,587)
PROFIT FROM OPERATIONS		5,795	3,560	9,355
Finance revenue	(f)	70	1,100	1,170
Finance expense	(f)	(101)	(1,300)	(1,401)
PROFIT BEFORE TAX		5,764	3,360	9,124
Income tax expense	(j)	(2,882)	(1,129)	(4,011)
PROFIT AFTER TAX		2,882	2,231	5,113

Business combinations

a) Acquisition of Tribon Solutions AB

On 19 May 2004, the Group acquired Tribon Solutions AB, a Swedish group that develops, markets and supports software solutions for use in the design and production processes in the marine industry.

The fair value of the consideration was £20,277,000. Under UK GAAP, goodwill of £23,859,000 arose on acquisition.

The Group has accounted for the Tribon acquisition in accordance with IFRS 3, "Business Combinations". Under IFRS 3, intangible assets purchased as part of a business combination may meet the criteria set out in IFRS 3 for categorisation as intangible assets other than goodwill and are amortised over their useful economic lives. Under UK GAAP, intangible assets purchased as part of a business combination are included within the goodwill balance unless the asset can be identified and sold separately without disposing of the business as a whole.

The Group has recognised two intangible assets relating to the Tribon acquisition. These are customer relationships and developed technology which are being amortised over their estimated useful economic lives of twenty years and five years respectively. The customer relationships and the developed technology have been valued at £6,300,000 and £5,800,000 respectively. These valuations have been carried out by a leading firm of accountants other than the auditors Ernst & Young.

Under IAS 12, "Income Taxes", the difference between the book value of these intangible assets for accounting purposes and the tax value of these assets gives rise to a temporary difference. A deferred tax liability of £3,388,000 has therefore been recorded at acquisition which is being released to the Consolidated income statement in proportion to the amortisation of the related intangibles.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33 TRANSITION TO IFRSs CONTINUED

A reconciliation of goodwill recognised under UK GAAP compared to IFRS is set out in the following table:

	£000
GOODWILL RECOGNISED UNDER UK GAAP AS PREVIOUSLY REPORTED	23,859
ADJUSTMENTS	
Recognition of intangible assets	
Developed technology	(5,800)
Customer relationships	(6,300)
Corresponding deferred tax liability	3,388
Other adjustments	(274)
Deferred tax asset re losses	(794)
GOODWILL RECOGNISED UNDER IFRS	14,079

In accordance with IFRS 3 and IAS 12, a deferred tax asset has been recognised in the acquisition Balance sheet to the extent that tax losses have been utilised post acquisition up to the date that the acquisition fair values have been finalised.

b) Acquisition of Realitywave Inc,

On 31 March 2005, the Group acquired Realitywave Inc, a software development company based in Boston, Massachusetts, USA. The fair value of the consideration was £3,192,000 and the goodwill arising under UK GAAP was £3,554,000.

The Group has also accounted for this acquisition in accordance with IFRS 3 and has recognised the developed technology as an intangible asset as it meets the criteria for recognition under IFRS. A leading firm of accountants (other than the auditors Ernst & Young) has carried out a valuation of the developed technology.

A reconciliation of goodwill recognised under UK GAAP compared to IFRS is set out in the following table:

	£000
GOODWILL RECOGNISED UNDER UK GAAP	3,554
ADJUSTMENTS	
Recognition of intangible assets	
Developed technology	(2,980)
Corresponding deferred tax liability	1,281
GOODWILL RECOGNISED UNDER IFRS	1,855

A deferred tax liability of £1,281,000 has been recorded at acquisition which is being released to the Consolidated income statement in proportion to the amortisation of the developed technology intangible.

Intangible assets and goodwill arising on overseas acquisitions are treated as foreign currency assets of the acquired entities under IFRS and accordingly related foreign exchange movements have been recorded in reserves. Under UK GAAP, these balances were treated as if they were denominated in pounds Sterling.

Intangible assets**(c) Goodwill**

IAS 38, "Intangible Assets" requires that goodwill is not amortised but is instead subject to an annual impairment review. As the Group has elected not to apply IFRS 3, "Business Combinations" retrospectively to business combinations prior to the date of transition (1 April 2004) under IFRS, the UK GAAP goodwill balance of £1,313,000 has been included in the opening IFRS Consolidated balance sheet and is no longer amortised. In addition, goodwill which arose on the acquisitions of Tribon Solutions AB and Realitywave Inc. is not amortised either in accordance with IAS 38.

The credit arising from the adoption of IAS 38 on the Group's Consolidated income statement in respect of goodwill amortisation is set out below:

	YEAR ENDED 31 MARCH 2005 £000
Cost of sales	(217)
Administrative expenses	(2,114)
TOTAL	(2,331)

IFRS 1 requires that an impairment review of goodwill be conducted in accordance with IAS 36, "Impairment of Assets" at the date of transition irrespective of whether an indication exists that goodwill may be impaired. No impairments were necessary as at 1 April 2004 following the review carried out in accordance with this standard. Furthermore, goodwill relating to the Tribon acquisition and historical acquisitions was tested for impairment at 31 March 2005 and no impairment was noted.

(d) Other intangibles

The amortisation charge in respect of the intangible assets acquired as part of the Tribon business combination is as follows:

	YEAR ENDED 31 MARCH 2005 £000
Cost of sales - developed technology	1,027
Selling costs - customer relationships	279
TOTAL	1,306

There is no amortisation charge in respect of the Realitywave Inc. developed technology in the year ended 31 March 2005 due to the acquisition having completed on 31 March 2005.

(e) Computer software

Under UK GAAP, all capitalised computer software is included within tangible fixed assets on the Balance sheet. Under IFRS, only computer software that is integral to a related item of hardware should be included as property, plant and equipment. All other computer software should be recorded as an intangible asset.

Accordingly, the following reclassifications have been made:

	AT 31 MARCH 2004 £000	AT 31 MARCH 2005 £000
Other intangible assets	456	220
Property, plant and equipment	(456)	(220)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33 TRANSITION TO IFRSs CONTINUED

Employee benefits

(f) Retirement benefit schemes

The Group accounted for its UK defined benefit pension scheme in accordance with SSAP 24, "Accounting for pension costs" under UK GAAP and provided the detailed disclosures required by FRS17, "Retirement Benefits". Under SSAP 24, a regular pension cost for defined benefit schemes was determined using actuarial methods and charged to the Consolidated income statement. Variations from regular cost caused by, for example, retroactive changes in benefits, changes in actuarial assumptions, and experience gains and losses, were spread over the average remaining service lives of the employees. The cumulative difference between the Income statement expense and employer contributions was held in the Balance sheet either as a provision or a prepayment.

Under IFRS, the Group applies IAS 19 "Employee Benefits". This standard follows a Balance sheet approach which is similar to that of FRS 17 whereby scheme deficits or surpluses are recognised on the Balance sheet. The Income statement expense comprises the current service cost, the interest cost, the expected return on any plan assets and the appropriate portion of any past service cost.

The Group has elected to adopt early the amendment to IAS 19, "Employee Benefits" issued by the IASB on 16 December 2004, which allows all actuarial gains and losses to be charged or credited to equity.

The impact of adopting IAS 19 is as follows:

	AT 31 MARCH 2004 £000	AT 31 MARCH 2005 £000
BALANCE SHEET		
Net liability	(8,500)	(4,872)
Deferred tax asset	2,550	1,462

The impact on the Consolidated income statement is as follows:

	YEAR ENDED 31 MARCH 2005 £000
CONSOLIDATED INCOME STATEMENT	
Cost of sales	(1,668)
Administrative expenses	(476)
Selling costs	(784)
OPERATING CREDIT	(2,928)
Net finance expense	200
TOTAL CREDIT TO CONSOLIDATED INCOME STATEMENT	(2,728)

The credit to the Consolidated income statement is analysed as follows:

	YEAR ENDED 31 MARCH 2005 £000
Current service cost	1,299
Finance cost (net)	200
Employer contributions	(1,127)
	372
Past service credit	(3,100)
TOTAL CREDIT TO CONSOLIDATED INCOME STATEMENT	(2,728)

The actuarial gains which been recognised directly in equity are as follows:

	YEAR ENDED 31 MARCH 2005 £000
Actuarial gain	900

A credit to operating expenses arises in the year ended 31 March 2005 due to the scheme being converted to a Career Average Revalued Earnings basis on 30 September 2004 which resulted in a past service credit of £3,100,000.

(g) Share-based payment

IFRS 2, "Share-based Payment" requires that an expense for equity instruments granted be recognised in the financial statements based on their fair value at the date of grant. The expense is recognised over the vesting period of the share options.

Under UK GAAP, a charge was recorded only when an award has an intrinsic value on the date of grant. In the year ended 31 March 2005 there was no material charge under UITF 17.

The expense only relates to share options which have been granted after 7 November 2002 which have not fully vested by 1 January 2005. There were a total of 30,000 share options granted under the terms of the AVEVA Long-Term Incentive Plan (LTIP) on 1 July 2004. The fair value of the award of these shares under the LTIP has been adjusted to take into account total shareholder return (TSR) as a market-based performance condition, using a pricing model that takes into account expectations about volatility and the correlation of share price returns in the comparator group. The model follows similar principles as the Monte Carlo approach and takes into account that TSR vesting and share price performance are not independent.

The charges arising from the adoption of IFRS 2 in the Consolidated income statement is as follows:

	YEAR ENDED 31 MARCH 2005 £000
Administrative expenses	24

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33 TRANSITION TO IFRSs CONTINUED

Deferred tax is provided based upon the expected future tax deductions relating to share-based payment transactions, and is recognised over the vesting period of the schemes concerned. In addition, a deferred tax asset has been recognised relating to share options granted prior to 7 November 2002 which have not been exercised because a temporary difference arises between the future tax deduction and the accounting base. The tax benefit is recorded directly in equity. A summary of the deferred tax assets recognised in respect of share options is as follows:

	AT 31 MARCH 2004 £000	AT 31 MARCH 2005 £000
DEFERRED TAX ASSET		
Recorded in Consolidated income statement	-	7
Recorded in equity	85	304
TOTAL DEFERRED TAX ASSET RECOGNISED	85	311

(h) Holiday pay liabilities

In common with many UK companies, the Group did not provide for holiday pay liabilities in respect of its UK employees.

IAS 19 requires that a liability is recorded for all accrued entitlements for holiday at each balance sheet date. The impact on the Group is to increase employee benefits expense and to introduce additional seasonality to profit from operations.

The impact on the Group's Consolidated balance sheet is as follows:

	AT 31 MARCH 2004 £000	AT 31 MARCH 2005 £000
BALANCE SHEET		
Trade and other payables	237	227

The credit arising in the Group's Consolidated income statement is as follows:

	YEAR ENDED 31 MARCH 2005 £000
Administrative expenses	(10)

A corresponding deferred tax asset has been recorded in respect of the holiday pay adjustment.

(i) Other adjustments

Other adjustments represent exchange differences arising on the revaluation of foreign currency denominated goodwill and intangibles and associated deferred tax impact, unwinding of the fair value adjustment to deferred revenue made on acquisition of Tribon and reclassification of deferred tax and provision balances.

(j) Taxation

Deferred tax under UK GAAP was provided on all timing differences that had originated but not reversed at the Balance sheet date. Timing differences arise when gains and losses are included in tax computations in a later or earlier period from that in which they appear in the Group's financial statements.

IAS 12, "Income Taxes" has a balance sheet focused approach. The standard requires that full provision be made for all taxable temporary differences except those arising on goodwill. A temporary difference is the difference between the carrying amount of an asset or liability in the Balance sheet and its associated tax base. A temporary difference is a taxable temporary difference if it will give rise to taxable amounts in the future when the asset or liability is settled.

The principal impact of adopting IAS 12 has been to recognise deferred tax on the defined benefit pension scheme, intangible assets recognised in accordance with IFRS 3 relating to the Tribon and Realitywave acquisitions, non-qualifying property, plant and equipment and share options.

In accordance with IAS 12, deferred tax assets and liabilities of the same taxable entity have been offset which relate to taxes levied by the same taxable authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

(k) Dividends

Under UK GAAP, dividends were recognised as an expense in the Income statement. An accrual was made for dividends that were proposed by Directors after the Balance sheet date, but prior to the date of the signing of the financial statements and a corresponding expense was recognised.

Distributions to equity holders are not recognised in the Consolidated income statement under IFRS, they are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a final dividend when the dividend is approved by the Company's shareholders and for an interim dividend when the dividend is declared.

The impact of IFRS is to remove the accrual for the 2003/04 final dividend of £699,000 and the 2004/05 final dividend of £943,000 in the Balance sheet at 31 March 2004 and 2005 respectively.

(l) Financial instruments

The Group has applied IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 April 2005 in accordance with the transitional provisions of IFRS 1.

There was no material impact on the financial statements following adoption of IAS 32 and 39 on 1 April 2005.

(m) Cash flow statement

Although there is no effect on the underlying cash generation and expenditures of the Group, there have been some presentational changes on the adoption of IAS 7 "Cash Flow Statements". The cash flow statement under IFRS shows the movement in cash and cash equivalents. The format of the cash flow statement has changed to show cash flows analysed between operating, investing and financing activities.


(n) Segment information

The Group reports segment information by class of business and by geographical area. The Group's primary segment reporting format, for which more detailed disclosures are required, is by geographical area. The secondary segment reporting format is by class of business.

COMPANY BALANCE SHEET – UK GAAP

	NOTES	2006 £000	2005 RESTATED £000
FIXED ASSETS			
Investments	5	27,482	27,482
CURRENT ASSETS			
Debtors	6	7,162	4,114
Cash at bank and in hand		876	247
CREDITORS: Amounts falling due within one year	7	8,038 (12)	4,361 -
NET CURRENT ASSETS		8,026	4,361
NET ASSETS		35,508	31,843
CAPITAL AND RESERVES			
Called-up share capital	8	2,225	2,204
Share premium account	9	25,353	24,323
Merger reserve	9	3,921	3,921
Profit and loss account	9	4,009	1,395
EQUITY SHAREHOLDERS' FUNDS	10	35,508	31,843

The financial statements on pages 88 to 92 were approved by the Board of Directors on 17 May 2006 and signed on its behalf by:



N Prest
Director



R Longdon
Director

17 May 2006

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

NOTES TO THE FINANCIAL STATEMENTS – UK GAAP

1 CORPORATE INFORMATION

AVEVA Group plc (the Company) is a limited company incorporated in England and Wales whose shares are publicly traded. The principal activity of the Company is that of a holding company.

2 ACCOUNTING POLICIES

A summary of the principal accounting policies have all been applied consistently throughout the current and the preceding year except for the following:

The Company has adopted FRS 21 “Events after the balance sheet date” for the first time in 2006. The consequence of this is that dividends proposed after the balance sheet date are no longer recognised as an adjusting post balance sheet event. The prior year comparatives have been adjusted to take account of this.

a) Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and law. As permitted by Financial Reporting Standard No.1 (Revised), “Cash flow statements”, the Company has not included a Cash flow statement as part of its financial statements because the consolidated financial statements of the Group (of which the Company is a member) include a cash flow statement and are publicly available.

b) 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 Company’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 re-valued unless by the Balance sheet date there is a binding agreement to sell the re-valued 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.

c) Foreign currency

Transactions denominated in foreign currencies are recorded at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. 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.

d) Investments

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

NOTES TO THE FINANCIAL STATEMENTS – UK GAAP CONTINUED

3 PROFIT FOR THE YEAR

As permitted by section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. AVEVA Group plc reported a profit for the financial year ended 31 March 2006 of £4,056,000 (2005 - £1,000,000).

Audit fees are borne by another Group company.

The Company does not have any employees (2005 - nil). Director's emoluments are disclosed in the Directors' remuneration report on pages 27 to 31.

4 DIVIDENDS

DECLARED AND PAID DURING THE YEAR	2006 £000	2005 £000
Interim dividend paid of 2.2p (2005 - 1.8p) per ordinary share	490	396
Final dividend paid of 4.3p (2005 - 4.0p) per ordinary share	952	878
	1,442	1,274
Proposed for approval by shareholders at the AGM		
Final proposed dividend of 5.2p (2005 - 4.3p) per ordinary share	1,157	948

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 14 July 2006 and has not been included as a liability in these financial statements.

The Company has adopted FRS 21 "Events after the Balance sheet date" for the first time in 2006. The consequence of this is that dividends proposed after the balance sheet date are no longer recognised as an adjusting post Balance sheet event. The prior year comparatives have been adjusted to take account of this.

5 FIXED ASSET INVESTMENTS

	£000
COST AND NET BOOK VALUE	
At 1 April 2005 and at 31 March 2006	27,482

Details of the Company's subsidiary undertakings are set out in note 18 in the consolidated financial statements of the Group.

6 DEBTORS: Amounts falling due within one year

	2006 £000	2005 £000
Amounts owed by Group undertakings	7,162	4,114

7 CREDITORS: Amounts falling due within one year

	2006 £000	2005 RESTATED £000
Other creditors	12	-

8 CALLED-UP SHARE CAPITAL

	2006 £000	2005 £000
Authorised 30,000,000 ordinary shares of 10p each	3,000	3,000
Allotted, called-up and fully-paid 27,251,567 (2005 - 22,036,617) ordinary shares of 10p each	2,225	2,204

	2006 NUMBER	2006 £000	2005 NUMBER	2005 £000
At 1 April	22,036,617	2,204	17,470,300	1,747
Exercise of share options	214,950	21	131,550	13
Placing and open offer	-	-	3,645,112	365
Acquisition of Tribon Solutions AB	-	-	789,655	79
At 31 March	22,251,567	2,225	22,036,617	2,204

Details of the shares issued during the year are as follows:

DATE OF ISSUE	NUMBER OF SHARES 2006	NOMINAL VALUE 2006 £	SHARE PREMIUM 2006 £	MARKET PRICE
20 April 2005	3,600	360	15,258	£7.12
17 May 2005	4,200	420	16,431	£6.67
16 June 2005	49,900	4,990	250,651	£7.07
15 July 2005	112,850	11,285	557,842	£7.60
22 September 2005	3,200	320	9,648	£9.05
20 October 2005	6,500	650	30,518	£8.54
9 November 2005	6,650	665	26,906	£9.63
15 December 2005	20,050	2,005	92,274	£9.12
19 January 2006	1,200	120	5,634	£10.12
24 February 2006	6,800	680	24,434	£10.51
	214,950	21,495	1,029,596	

During the year the Company issued 214,950 ordinary shares of 10p each with a nominal value of £21,495 pursuant to the exercise of share options. The total proceeds were £1,051,000, which included a premium of £1,030,000.

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

	NUMBER OF OPTIONS	EXERCISE PRICE (P)
30 March 2000	8,900	342.5
19 January 2001	179,800	524.7
12 July 2001	70,500	479.5
1 July 2004	30,000	10.0
20 July 2005	85,177	796.0

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 – UK GAAP CONTINUED

9 RESERVES

	MERGER RESERVE £000	SHARE PREMIUM £000	PROFIT AND LOSS ACCOUNT £000
At 1 April 2004 as previously reported	-	8,210	970
Prior year adjustment	-	-	699
At 1 April 2004 as restated	-	8,210	1,669
Share issues	3,921	16,113	-
Dividends paid	-	-	(1,274)
Profit for the year	-	-	1,000
At 31 March 2005	3,921	24,323	1,395
Share issues	-	1,030	-
Dividends paid	-	-	(1,442)
Profit for the year	-	-	4,056
At 31 March 2006	3,921	25,353	4,009

10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	YEAR ENDED 31 MARCH 2006 £000	YEAR ENDED 31 MARCH 2005 £000
Profit for the financial year	4,056	1,000
Dividends	(1,442)	(1,274)
Share issues	1,051	20,491
Net addition to shareholders' funds	3,665	20,217
Opening shareholders' funds as previously reported	-	10,927
Prior year adjustment	-	699
Opening shareholders' funds as restated	31,843	11,626
Closing shareholders' funds as restated	35,508	31,843

11 RELATED PARTY TRANSACTIONS

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

AUDITORS' REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVEVA GROUP PLC

We have audited the parent Company financial statements of AVEVA Group plc for the year ended 31 March 2006 which comprise the Balance Sheet and the related notes 1 to 11. These parent Company 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.

We have reported separately on the Group financial statements of AVEVA Group plc for the year ended 31 March 2006.

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, the Directors' remuneration report and the parent Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the parent Company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view, the parent Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and that the information given in the parent Company Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Financial review that is cross referred from the business review section of the Directors' report.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Chairman's statement, the Chief Executive's review, the Financial review, the Corporate governance statement and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company 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 parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company 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 parent Company financial statements and the part of the Directors' remuneration report to be audited.

OPINION

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;
- the parent Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent Company financial statements.



Ernst & Young LLP
Registered auditor

Cambridge
17 May 2006

FIVE YEAR RECORD

	IFRS		UK GAAP		
	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
SUMMARISED CONSOLIDATED RESULTS:					
Revenues	65,930	57,163	38,113	36,008	31,818
Gross profit	44,416	38,942	25,525	22,961	20,230
Profit from operations before intangible amortisation	13,300	11,013	6,756	6,237	5,561
Amortisation of intangibles*	(2,065)	(1,658)	(619)	(619)	(637)
Profit from operations	11,235	9,355	6,137	5,618	4,924
Income tax expense	(3,079)	(4,011)	(2,199)	(1,922)	(1,573)
Profit for the financial year	8,076	5,113	3,910	3,658	3,365
Earnings per share	36.41p	23.91p	22.63p	21.46p	19.82p
Adjusted earnings per share	48.44p	27.86p	26.20p	25.09p	23.57p
Total dividend per share	7.4p	6.1p	5.8p	5.6p	5.4p
SUMMARISED CONSOLIDATED BALANCE SHEET:					
Non-current assets	38,245	39,753	8,336	8,583	8,307
Cash and cash equivalents	24,173	12,114	8,713	4,930	6,356
Net current assets	20,830	11,478	13,610	10,583	8,523
Shareholders funds: all equity	50,860	41,369	21,570	18,582	16,297

*excluding amortisation of other software

COMPANY INFORMATION AND ADVISORS

DIRECTORS	Nick Prest CBE <i>Chairman</i>
	Richard Longdon <i>Chief Executive</i>
	Paul Taylor <i>Finance Director</i>
	Colin Garrett <i>Non-Executive Director</i>
	David Mann <i>Non-Executive Director</i>
SECRETARY	Paul Taylor
REGISTERED OFFICE	High Cross Maddingley 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
SOLICITORS	Mills & Reeve Francis House 112 Hills Road Cambridge CB2 1PH
	Ashurst Broadwalk House 5 Appold Street London EC2A 2HA
STOCKBROKER AND FINANCIAL ADVISORS	Hoare Govett Limited 250 Bishopsgate London EC2M 4AA
REGISTRARS	Capita Registrars Bourne House 34 Beckenham Road Beckenham, Kent BR3 4TU