AVEVA Group plc Annual report 2007

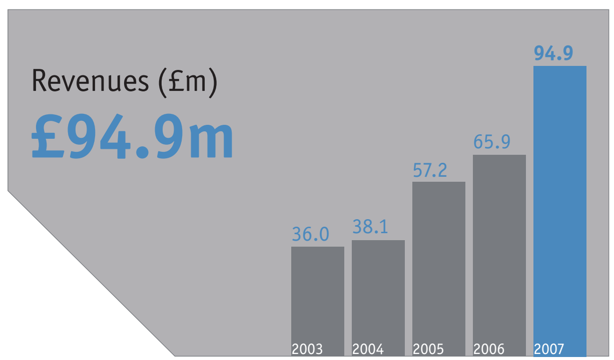
40

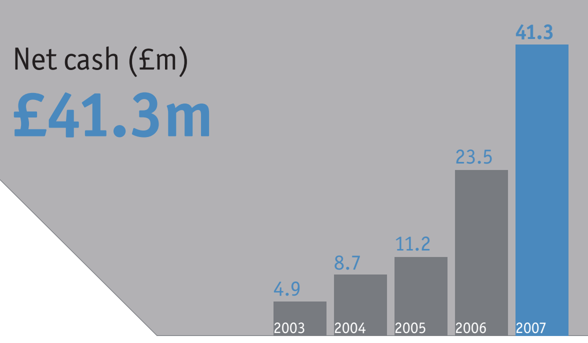
years of innovation

40 years of achievement

AVEVA is the world's leading engineering IT software provider to the plant, power and marine industries. Through 40 years of visionary and continual progression, AVEVA has grown organically and through acquisition to develop a comprehensive product portfolio which has led a transformation in the way major projects are designed and built.

- **Another record year of revenue, profit and cash growth**
- **Revenues up 44% to £94.9 million (2006 – £65.9 million)**
- **Recurring revenues up 29% at £52.7 million (2006 – £40.9 million)**
- **Adjusted profit before tax, amortisation, share-based payments and goodwill adjustment up 104% to £28.1 million (2006 – £13.8 million)**
- **Adjusted earnings per share up 96% to 31.71p (2006 – 16.15p)**
- **Profit before tax £24.7 million (2006 – £11.2 million)**
- **Basic earnings per share up 119% to 26.59p (2006 –12.14p)**
- **Strong cash flow with net cash at the year end of £41.3 million (2006 – £23.5 million)**
- **Increased final dividend of 2.94p (2006 – 1.73p) bringing the full year dividend to 4.18p (2006 –2.46p) – an increase of 70%**
- **Investment in Research and Development increased 27% to £17.6 million (2006 – £13.9 million)**





*Adjusted profit before tax and adjusted earnings per share is calculated before amortisation of intangible assets, share-based payments, goodwill adjustments, restructuring costs and past service credit on the defined benefit pension scheme in the relevant years.

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Group overview

Working in demanding industries, that once used drawing boards and plastic models, customers now depend on AVEVA's integrated engineering software to drive every phase of a project's engineering workflow. From initial design and specification, through 3D engineering layout to procurement, materials management and project control, AVEVA's software combines technical excellence with unrivalled data integrity. Future product developments will extend the use of valuable design and engineering data more widely across the enterprise through the use of the emerging range of AVEVA NET products.

AVEVA's products are very pertinent to the markets which are experiencing a sustained boom period, especially oil and gas, power and marine. Our strategy of developing our direct sales and support channel to service high growth economies is working very well, in particular in the Asian region, where all AVEVA products have sold well into both the plant and marine industries.

With 40 years experience in the industry AVEVA has been a founder, pioneer and is now a true leader in the field. Once again we have invested record levels in new technology and the product roadmap is a reflection of our ongoing market-leading investment in the continual progression of existing products and the introduction of class leading new products during the coming year.

Our global reach:

Our history

1967	1976	1983	1994	1996	2002	2004	2005	2006	2007
Founded	World's first 3 plant design system	Privatisation	MBO	Flotation	Name change	Acquisition of Tribon	Acquisition of Realitywave	Entered FTSE 250 Awarded PLC Company of the Year and techMARK Company Of the Year	40 Years of Achievement

% of Group Revenues

ASIA PACIFIC £36.9m
39%

AMERICAS £13.5m
14%

WEMEA £21.7m
23%

CES £22.8m
24%

Sector focus
Oil and gas

With around 30% of our customers' active in this market globally, AVEVA has grown from a base of North Sea customers who pioneered 3D design using AVEVA tools. Today, our products have become the global benchmark for the offshore industry and a major part of the more diverse onshore oil and gas market.

Increased energy commodity prices, demand growth and investment in infrastructure have led to unprecedented demand for AVEVA tools, positioning AVEVA as the primary supplier to this ever more global industry. In fact, across the world we have seen very high levels of demand, both in our established markets of the USA and northern Europe as well as in newer markets in which we have invested over recent years. The new AVEVA office in Russia has seen some large orders from new customers such as URAL TEP, Gazprom and RAO UES. In Latin America we have had great success with Petrobras, PEMEX and PDVSA. In Europe we have seen some of our very large rental customers double their annual commitment to meet the increased workload. The investments in providing a system that can be used across multiple engineering sites around the world and still provide a consistent and high quality design has set AVEVA apart from its competitors. AVEVA's ability to offer facilities to segment databases across multiple locations very efficiently has become a major differentiator for the larger engineering companies and has been one of the most influential factors in winning business from the world's top engineering companies.

With over 60 Floating Production Storage and Offloading (FPSO) platforms currently in production and many of AVEVA's customers specialising in this type of deepwater mega platform, we anticipate that demand will increase as more of the available reserves are found in deepwater and further offshore. The increase in these highly complex assets will drive a significant increase in the amount of engineering design hours and consequent use of AVEVA products. Additionally, management of such high value assets during their 30 year lives will become increasingly important and the AVEVA NET products will address this growing market.

AVEVA has invested heavily in building products that are not only attractive to its traditional customers, but also appeal to the owner operator customers. Products such as AVEVA NET and the AVEVA Laser Model Interface play well to customers seeking to maximise the valuable data locked up in their assets. In Norway, Statoil has decided to move all engineering design data into AVEVA systems, using specially developed translators to migrate data from legacy systems, in conjunction with capturing the vitally important as-built plant status using laser technology. This means that accurate asset information can be built in the AVEVA systems and used for design modification and extension.

OIL & GAS

Sector focus **Power**

In the last 2 years AVEVA has seen its market share in the power related industries expand significantly, as the above-trend growth for increased supply globally continues to gather pace, with a particular emphasis on the high growth regions of Brazil, China, India and Russia. In the thermal power generation market, one of AVEVA's longest established customers doubled their spending on AVEVA tools last year. In addition, on top of our global customer base of world leading suppliers of fossil fuelled capacity, we are seeing a renewed interest in nuclear power generation. The first new design nuclear reactor for many years is being built in Finland and the prime contractor, AREVA, uses the complete AVEVA plant product portfolio. During the year we have also sold new installations at Bechtel and Constellation Energy in the USA.

In China, through focused marketing efforts, we now have 21 of the 26 top grade design institutes using AVEVA technology. Our design tools are being used on the new 1000MW ultra-supercritical thermal power plants in Zouxian and on the largest coal liquefaction plant in the world. Nuclear power plays a major part in the generating mix in China and as well as working with China's supply partners AVEVA will supply the design tools for the first new generation nuclear plant to be designed and built by Chinese companies.

During the past year the demand for AVEVA products in the power industry has been such that we have set up a dedicated centre of excellence for the power industries. The aim of the centre is to provide tailored solutions and applications built on the AVEVA core products in order to make our tools even more attractive to the customers and to extend our competitive advantage. It was a strategic decision to establish the 'Power Centre of Excellence' in the AVEVA office in Guangzhou, and the product add-ons developed there will be available to customers globally.

POWER

Sector focus **Marine**

AVEVA Marine is a suite of products specifically produced for the world's ship building market. Not only are the tools the best in the design office, but through many years of working closely with world leaders in the marine industry, AVEVA Marine products also offer unique benefits in ship production.

Many of the new customers this year have chosen AVEVA due to the new capabilities of the combination of highly sophisticated hull design and outfitting technology available on a single database platform. With such a high demand for yard capacity, yards worldwide are looking to increase their productivity and ability to offer a wide range of vessel designs. AVEVA tools offer unrivalled levels of productivity and have been proven by many of the world's leading shipbuilders.

Our contract with Hyundai has seen delivery of the first combined Tribon and AVEVA technology, and AVEVA Marine 12 will follow later this year with full customer roll-out before the end of 2007. Such is the pace of development of the new AVEVA Marine product that many long-term marine customers can see the value in future releases and are signing recurring fee contracts to ensure they have access to the new releases as they become available. The Korean team has been very successful in building the marine business – as well as developing and maintaining first class customer relationships with the leading shipyards – that we intend to open a Research and Development centre in Busan in May 2007. The aim of the 'Marine Technology Support Centre' will be to harness some of the most modern production technology and encapsulate this in future AVEVA Marine software tools. Already AVEVA has very strong working relationships with a number of the world's major shipbuilders in Korea, and these relationships will be of great benefit as we work to develop new technology in conjunction with customers and affiliated educational institutes.

China has a goal to become the world's largest supplier of new ship tonnage within 10 years and the substantial investments to build new yards and restructure older yards has seen a huge increase in business for AVEVA over the past year. We have made large system installations in COSCO, Rongsheng and several other yards during the year. Josephine Zhou manages the business in China, with a highly professional support and customer service team based in Shanghai.

During the coming year we will launch significant new products for the marine industry. This combined with our increasing marketing efforts in naval marine design, will enable us to attract new customers and supply new products to our installed base.

MARINE

Chairman's statement

"AVEVA's people and solutions are world class and represent a highly focused and truly global organisation. The marine, oil and gas and power markets in which we operate look set to remain strong, with demand in some areas driving order books to an all time high. With such momentum in the Company and the markets which we serve the Board believes that the outlook remains very positive."

Nick Prest Chairman

I am delighted to announce another record year for AVEVA. We have seen unprecedented growth in revenue and profits reflecting AVEVA's position in the expanding global markets for marine, oil and gas and power engineering. These results reflect the strengths of AVEVA, providing market leading technology solutions to our customers throughout the world.

Key financials

Our revenues grew by 44% and amounted to £94.9 million (2006 – £65.9 million). Strong growth was achieved in all our major territories, where we also maintained a good balance between initial fees and recurring fees, which now amount to £52.7 million (2006 – £40.9 million).

Profit before tax, amortisation, share-based payments and goodwill adjustment increased to £28.1 million (2006 – £13.8 million), delivering an increase in adjusted earnings per share of 96% to 31.71p (2006 – 16.15p).

The investment in the AVEVA suite of products continued to be one of the highest in the industry increasing 27% to £17.6 million (2006 – £13.9 million). We believe such levels of investment will continue to strengthen our market position by offering products which will drive the future productivity increases our customers demand.

The continued strength of trading has seen net cash increase to £41.3 million (2006 – £23.5 million).

Dividend

A very strong set of results and continued confidence for the future lead the Board to propose an increased final dividend of 2.94p (2006 – 1.73p). Together with the interim dividend of 1.24p, this gives a full year dividend of 4.18p (2006 – 2.46p), an increase of 70%.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 1 August 2007 to shareholders on the register on 29 June 2007.

People

During the past year we have invested heavily in people and to support this we have appointed Hilary Wright as the Head of Global Human Resources.

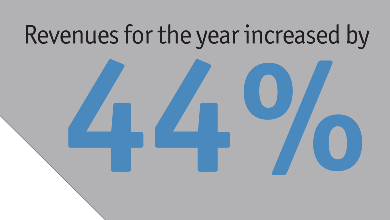
I would to like to take this opportunity to thank Richard Longdon, his executive team and all the AVEVA staff worldwide for their hard work over the past 12 months. I have been here just over a year, but many AVEVA staff have long service in the Company, and the excellent results we are reporting reflect sustained planning and effort over many years.

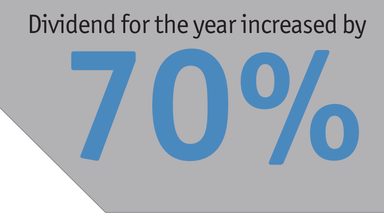
Across the Group all the employees have been committed to making AVEVA a winning organisation and it is thanks to their dedication and professionalism that AVEVA has scooped many of the major business awards and accolades in 2006/7.

Outlook

AVEVA has positioned itself at the forefront of technological innovation through the continued development of its product range. This, combined with the close relationships it enjoys with the ever expanding customer base, has meant that the Group has benefited strongly from the surge in end user markets. It is now one of the very few technology companies whose efforts are dedicated to serving the marine, oil and gas and power markets. Its people and solutions are world class and represent a highly focused and truly global organisation. The markets in which it operates look set to remain strong, with demand in some areas driving order books to an all time high. With such momentum in the Company and the markets which we serve the Board believes that the outlook remains very positive.

Nick Prest
Chairman





Chief Executive's review

> Last year was a milestone year for AVEVA. Our core markets are continuing to enjoy record levels of growth and we are capitalising on the different opportunities this offers.

Summary of the Chief Executive's review

- The Company's outstanding performance during the year has propelled AVEVA into the FTSE 250
- In the last two years AVEVA has seen its market share in the power related industries expand significantly as demand for increased supply globally continues to gather pace
- With global shipyard activity hitting new highs during the year, AVEVA has been able to maximise its position as the leading supplier to the marine industries

Richard Longdon CEO

Last year was a milestone year for AVEVA. Our core markets are continuing to enjoy record levels of growth and we are capitalising on the different opportunities this offers. In particular, a material number of high value deals were concluded this year. With both plant and marine products, AVEVA has been consistently beating competitors by demonstrating the value and strength of its product range and maximising the investment in local offices to provide best in class support and service.

The strong share price performance of the stock through the year has propelled AVEVA into the FTSE 250 and the Company has won a number of awards, most notably the London Stock Exchange techMARK Company of the Year and the PLC Company of the Year, in addition to a number of local business awards. These are a great tribute to all the employees that have been so dedicated to making AVEVA a winning team.

Rebranding

With an increasing number of products and the greatly increased awareness of the AVEVA brand globally, we are taking this opportunity to simplify our branding as we broaden the use of AVEVA core technology. All products will be marketed under the AVEVA Plant and AVEVA Marine brands. Our new product branding and very slightly changed corporate branding have been rolled out during April 2007, along with a completely redesigned and more accessible website.

Research and development

We are continuing to invest heavily in Research and Development to ensure that we retain our competitive advantage. One of the areas in which we are investing is the management of asset information. Increasingly, customers are realising the value of the data related to the high value assets they own and are looking to maximise the value of such information when there is upgrade or repair work to be carried out.

We are also investing in the AVEVA NET family of products. This product range will lead us into the growing market for Product Lifecycle Management systems. This is an emerging technology in which AVEVA are uniquely positioned to benefit from due to our unrivalled understanding of the complex major project execution processes.

It is important that we maintain our close dialogue with customers, not only for the continual progression of existing products, but also for the launch of new products which will elevate AVEVA's strategic value within its customer base. Through working closely with our customers we have developed a detailed product roadmap through to 2010 aimed at meeting specific demands of our customers.

Major industry focus

The AVEVA product range is sold to owners, operators and engineering contractors associated with complex process plant and marine assets. Our customers are active in power, oil and gas, marine, paper and pulp, food processing, brewing and many process related activities. Most large scale engineering projects are unique and of such a scale that they cannot be prototyped, but employ a concurrent design and build approach, often involving many partners across the globe working together on a single project. AVEVA has unparalleled experience and understanding of this complex market.

The Power segment has been a core market for AVEVA over many years, though in the last 2 years AVEVA has seen its market share in the power related industries expand significantly as demand for increased supply globally continues to gather pace, with a particular emphasis on the high growth regions of Brazil, China, India and Russia. The knowledge gained in working with customers across thermal and nuclear generation is a real strength and positions AVEVA very well to capitalise on the strong market expected for some years to come.

> AVEVA has completed a landmark year of successes in 2006/7 and the business is now operating at a higher level in every area.

With global shipyard activity hitting new highs during the year, AVEVA has been able to maximise its world leading position as the number one supplier to the marine industries, by increasing product usage as existing customers grow. Our success rate in winning new customers has also been first class. While winning business in the booming Korean market and the strongly emerging Chinese markets, we are also revitalising sales in Europe and the Middle East. Notably, we have won VT Shipbuilding in the UK and Dragon Offshore in the Middle East as customers, utilising our new capabilities for the combination of highly sophisticated hull design and outfitting technology available on a single database platform. With such a high demand on yard capacity, yards worldwide are looking to increase their productivity and ability to offer a wider range of vessel designs.

Oil and Gas is the traditional strength for AVEVA, with a large number of our customers active in this market globally. Increased energy commodity prices, demand growth and investment in infrastructure have led to unprecedented demand for AVEVA tools as the primary supplier to this ever more global industry. New business has been generated by some of the large international engineering customers expanding licence usage, as they maximise the use of skilled engineers on global project execution. The investment in providing a system that can be used across multiple engineering sites

Chief Executive's review
continued

around the world and still provide a consistent and high quality design gives AVEVA a distinct competitive advantage.

LNG is the world's fastest growing fuel and AVEVA is very well positioned in the supply chain, with many of its customers active in the front end of the process, marine customers active in the transportation of product in complex ships, and engineering companies active in the regasification process of the product once it has been landed. Already AVEVA products have been used on some of the largest facilities in the world for LNG processing and transportation.

AVEVA's global presence

AMERICAS – revenue: £13.5 million (2006 – £11.1 million)

The Americas region grew 22% during the year with the strongest sub-regional growth in Latin America. The main driver for this increase in business has been the booming oil and gas market, with all existing AVEVA customers reporting very full order books and a strong pipeline of potential future projects.

Latin America has seen 65% growth over the last year and 30 new customers. In this region we have a large oil and gas business, but are also very strong in the paper and pulp industry.

Although we already have a good market in Brazil, Chile and Mexico, careful evaluation has shown that there are further potential growth opportunities for us in these markets. In response to this, we are planning further investment in this region, principally through the opening of new offices. We started this process this year, with the opening of a subsidiary office in Mexico City.

ASIA PACIFIC – revenue: £36.9 million (2006 – £23.7 million)

Once again, the Asia Pacific region has produced excellent growth and now represents 39% of Group revenues. During the year the team took 9 orders over £1 million.

In China, Josephine Zhou and her team have achieved growth of over 250% in the marine business. This was largely driven by new customer wins and contract expansions from our marine customer base. Our marine division has capitalised on China's goal to become the world's largest supplier of new ship tonnage within 10 years. The substantial investments in both the construction and renovation of shipyards has seen a huge increase in business for AVEVA this year.

Nuclear power also plays a major part in the generating mix in China and, as well as working with China's supply partners, AVEVA will supply the design tools for the first new generation nuclear plant to be designed and built by Chinese companies. Our design tools are also being used on the new 1000Mw Super Ultracritical thermal power plants in Zouxian and on the largest coal liquefaction plant in the world.

The Korea/Japan organisations have continued to expand. As well as winning new customers, the AVEVA Korea team has been providing on site support to a number of established customers including Hyundai Heavy Industries, as the world's largest shipbuilder continues to roll out the AVEVA marine design tools. We are also working very closely with Hyundai on the development of AVEVA Marine 12 and they currently have a number of engineers embedded in our development organisation. Our contract with Hyundai has seen delivery

Revenues in Latin America grew by
65%

The Asia Pacific region represents
39%
of Group revenues

Revenues in WEMEA grew by
53%

The CES region has won
47
new customers

of the first combined Tribon and AVEVA technology and AVEVA Marine 12 will follow, with full customer roll-out before the end of 2007. The successes in Korea in recent years are now being emulated in Japan, with a strong upturn in business in this country.

Elsewhere in the region we have been investing in new people and have taken good orders in India, Malaysia and Indonesia across all industry sectors, with a very significant amount of new orders for AVEVA NET. We have aggressive plans to continue our growth across the Asia Pacific region and with so much new customer activity across the region, we will also be locating some Research and Development activity in both China and Korea.

CES – revenue: £22.8 million
(2006 – £17.0 million)

The Central and Southern Europe (CES) region had an excellent year, winning 47 new customers with over half of these migrating from our major competitor.

A major opportunity is developing out of our early stage investment in the Russian market. AVEVA has been operating in Russia for over 2 years and now has a steadily growing, strong and sustainable business. We have formed a subsidiary in Russia, within which we are now growing our team, and will also be integrating into this the marine sales and support business based in St Petersburg as a satellite office. Our progress in the complex Russian market this year increased considerably, with 2 of the region's influential power businesses becoming new customers.

The CES region has many companies with a long history of engineering in the key markets for AVEVA. These customers are supported by a number of software suppliers, whose products remain influential to the success of their businesses. AVEVA secured the rights to 2 of these products during the year, bringing both customer relationships and know-how.

WEMEA – revenue: £21.7 million
(2006 – £14.2 million)

Across the Western European, Middle East and Africa (WEMEA) region, with its 3 sub-regions, the focus has been on generating new marine business in all of the major industries served by AVEVA. This has been the first full year as Head of WEMEA for Martin Yeomans and it has been an outstanding year for both generating new business and strengthening the team in readiness for future years.

In the Nordic sub-region, where AVEVA has a large installed base in the oil and gas industry, we have seen very strong demand for product throughout the year and AVEVA has capitalised on the investments made on the West coast of Norway to get full service offices close to the customers' activities. Of particular importance is the decision by Statoil to move all of their engineering design data into AVEVA systems, using specially developed translators to migrate data from legacy systems. In conjunction with capturing the vitally important 'as built' plant status using laser technology, accurate asset information can be built in the AVEVA systems and used for design modification and extension.

In Finland, the first new design nuclear reactor for many years is being built. The prime contractor, AREVA, uses our complete plant product portfolio. Our customer relationships and strength of product offering have positioned us well to take advantage of the increased demand for nuclear reactors globally.

Prospects

AVEVA has completed a landmark year of successes in 2006/7 and the business is now operating at a higher level in every area. We are particularly focused on ensuring we have the highest quality people to continue our growth and will continue to pursue various initiatives in the coming year to maintain our high staff retention rate and to attract the best new talent.

Our customers' order books remain at the highest levels for many years, with a considerable backlog in many of the industries key to the growth of AVEVA. We plan to continue our high level of investment in Research and Development in the coming year as we develop our existing products and bring to market our new product lifecycle management tools.

During the last year we have made selective acquisitions to enhance our product range and to get new products based on the AVEVA core technology to market expeditiously. Our healthy cash balance allows us flexibility to move quickly ahead with bolt-on product acquisitions. With the proven success of Tribon now complete, we are also focused on future opportunities for strategic acquisitions and continue to seek value driven targets.

We are optimistic about continued strong performance in all areas of the business.

Richard Longdon
Chief Executive

Finance Director's review

years of making a difference

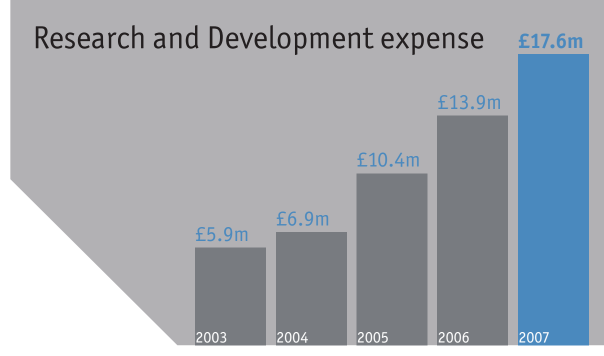
"AVEVA has delivered an exceptional set of financial results which reflects an established market position in all of our main markets where demand remains very strong.

Summary of the Finance Director's review

- Substantial increase in revenue generated across all our major regions and verticals delivered sales growth of 44%
- Recurring revenues now amount to £52.7 million
- Initial licence fee revenues almost doubled in the year to £34.2 million

Paul Taylor FD

AVEVA has delivered an exceptional set of financial results which reflects an established market position in all of our main markets where demand remains very strong.



Revenues

Substantial increase in revenue generated across all our major regions and verticals delivered sales growth of 44% to £94.9 million (2006 – £65.9 million).

Recurring revenues remained an intrinsic part of the business model and increased by 29% to £52.7 million (2006 – £40.9 million). Overall this now amounts to 56% of total revenues and whilst slightly lower as a percentage than last year it reflects the surge of Initial licence fee business, particularly in Asia and historical business denominated in US Dollars.

Initial licence fee revenues almost doubled in the year to £34.2 million (2006 – £17.6 million) and much of this growth was generated within the Asian region, where local preference still drives this style of sale. In other regions, customers' long-term visibility and confidence has also resulted in sales which may have previously been under a rental model.

Revenues generated from services continued to be driven by new product sales and increased this year by 8% to £8.0 million (2006 – £7.4 million).

Gross margin, operating expenses and profit before tax

Operating margins improved materially and reflect the nature of the business, where a predominant amount of cost of sales relates to Research and Development and delivery of new sales relates to standard product. However, investment in Research and Development remains one of the highest as proportion of sales in the industry and increased to £17.6 million (2006 – £13.9 million).

Operating costs increased to £43.6 million (2006 – £33.2 million) an increase of 31%. Continued expansion of our global sales effort remained a key component to this cost and included the opening of two additional sales offices in Russia and Mexico. Performance based rewards were also a major factor in the increase in costs in this area. Operating costs for 2006 included a charge for reduction in goodwill of £0.6 million in the year 2006 and in 2007 this amounted to £1.1 million. IFRS 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.

Adjusted profit before tax was £28.1 million, an increase of 104% (2006 – £13.8 million), which is before amortisation of intangibles, share-based payments and adjustment to goodwill of £3.4 million (2006 – £2.7 million).

Staff costs remain our single biggest expenditure. Total staff headcount has increased from 491 in March 2006 to 582 at 31 March 2007. Total costs, including related costs, amounted to £38.3 million (2006 – £29.0 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 headline 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. After adjusting for these items the effective rate is 32%, which is higher than the UK standard rate and due to a 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, share-based payments and adjustment to goodwill) was 31.71p compared with 16.15p in 2006 – an increase of 96%. Basic earnings per share was 26.59p (2006 – 12.14p). The Directors believe that adjusted earnings per share provides a more meaningful measurement of performance of the underlying business.

Finance Director's review
continued

Dividends
The Board recommends a final dividend of 2.94p per ordinary share, resulting in a total dividend per share for the year of 4.18p (2006 – 2.46p). The final dividend will be paid on 1 August 2007 to shareholders on the register at the close of business on 29 June 2007. The cost of dividends paid in respect of the financial year was £2.0 million (2006 – £1.4 million).

Balance sheet
The success of our business over recent years has helped strengthen our balance sheet, which in turn has helped us continue to invest organically to acquire key technologies and companies when the opportunities arise. Total assets have increased to £113.8 million from £89.7 million at 31 March 2006. Trade and other receivables for the same period were £36.5 million, compared with £26.9 million at 31 March 2006 and reflect the proportional increase in sales year on year. Deferred revenue increased to £15.4 million from £12.5 million at 31 March 2006, a 23% increase and is after adjusting for the weakness of the Dollar against Sterling.

Cash flows
Stronger first half trading than usual and subsequent debtor collections delivered substantial cash generation in the period, with net cash up 76% to £41.3 million (2006 – £23.5 million). Cash flow generated from operating activities before tax amounted to £26.8 million compared to £13.7 million in the prior year, demonstrating continued strong cash conversion.

As our market expands our customers' demands for more complex and integrated solutions grow. Our ability to sustain a market leading position will be driven by continued organic investment, but there are also opportunities to make value enhancing acquisitions. As such we believe it would be prudent to maintain a strong cash position to help support any potential acquisition opportunity.

Treasury policy
The Group treasury policy aims to ensure that the capital held is not put at risk and as such the treasury functions are managed under policies and procedures approved by the Board. These policies are designed to reduce the financial risk arising from the Group's normal trading activities, which primarily relate to credit, interest, liquidity and currency risk.

The Group is, and is expected to continue to be, cash positive and currently holds net deposits. The objective with these deposits is to maintain a balance between generating competitive rates and allowing accessibility. This generally means that no deposits are made beyond a 3 month commitment. However, AVEVA will secure the provision of committed funding at a competitive cost to meet any needs arising in the long-term business plan. The credit facilities will be secured with the Group's principal bankers. 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.

The revenue of the Group is predominantly in foreign currency, with approximately 35% in USD and 25% in Euro. The overseas entities incur costs in their local functional currency, which acts as a partial net hedge. The Group has a net funding requirement in GBP, due to the majority of Research and Development costs being incurred in the UK. Where applicable, revenue and expense payments will be netted against each other, constituting a natural hedge. Any payments which cannot be set off against each other will result in a net currency exposure and where possible

> Stronger first half trading than usual and subsequenat debtor collections delivered substantial cash generation in the period, with net cash up 76% to £41.3 million (2006 – £23.5 million).

these exposures will be hedged. These hedges aim to minimise the adverse effect of exchange rate movements, without eliminating all upside potential.

Acquisitions
During the year the Company bought a source code license for certain software from Spescom Software Inc. for the sum of £1.0 million ($2 million). The license of this software will enable AVEVA to extend its lifecycle information management solutions and capitalise on the rapid success of its AVEVA NET portal and integration software, to provide complete tailored data and document management solutions to its plant and marine customers.

Review of principal risks and uncertainties
AVEVA has delivered good growth in revenue, profits and cash over recent years, but as with any organisation there are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance. Where possible the Group seeks to mitigate these risks through its system of internal controls but this can only provide reasonable and not absolute assurance against material losses. The principal risks and uncertainties faced by the Group are as follows :

Protection of the Group's intellectual property rights
The Company's success has been built upon the knowledge developed in its intellectual property rights and 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 and the Group seeks to ensure that its intellectual property rights are appropriately protected by law wherever possible.

Dependency on key markets
AVEVA generates a substantial amount of its income from customers whose main business is derived from capital projects driven by growth in the oil and 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.

Timing of contract signing
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 revenues and profits, whilst the increasing recurring nature of our business mitigates this to some extent.

Foreign exchange risk
Exposure to foreign currency gains and losses can be material to the Group, with approximately 75% of the Group's revenues denominated in a foreign currency, of which our 2 largest are US Dollars (35%) and Euro (25%). 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.

Employees
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. The Group endeavours to ensure that employees are motivated by their work and there are regular appraisals, with staff encouraged to develop their skills.

Identification and successful integration of acquisitions
The Group expects to continue to review acquisition targets as part of its strategy. Market conditions may lead to increased competition for targets, resulting in higher acquisition prices or fewer prospects which will deliver lower value. The integration of acquisitions also involves a number of unique risks, including diversion of management's attention, failure to retain key personnel of the acquired business, failure to realise the benefits anticipated to result from the acquisition, system integration and risks associated with unanticipated events or liabilities.

Research and Development
The Group makes substantial investments in Research and Development in enhancing existing products and introducing new products. If new products or enhancements are introduced which do not meet customer requirements or competitors introduce a rival product which better meets the requirements of the market then this may have a material impact on revenues and profits.

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

International operations
The Group operates internationally and is required to comply with local laws and regulations and tax legislation of overseas countries. Significant changes in these laws and regulations or failure to comply with them could lead to additional liabilities and penalties. The Group endeavours to comply with local laws and regulations by employing qualified personnel and through the use of local professional advisers.

Paul Taylor
Finance Director

Corporate social responsibility report

The Directors recognise the 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 and aims to retain, develop and attract high calibre employees in 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, 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 Group's employment policies are continuously under review and are aimed at meeting or exceeding the legislative requirements in the countries in which the Group operates and wherever possible promote a considerate and flexible approach to work life balance issues.

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 in the running of our offices. The Group has active recycling campaigns which are continually being broadened. The Group utilises video conferencing technology wherever possible in order to minimise the amount of air travel.

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 whilst 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.

Charitable donations

The Company's major charitable donation this year was £30,000 to The Outward Bound Trust. This large donation was made instead of sending out Company Christmas cards, but was also part of our ongoing support to this Trust, who provide financial assistance nationwide for disadvantaged young people to attend outdoor adventure courses. These courses complement mainstream education by teaching important life skills and an 'I Can' attitude to life challenges. The Company also contributed funds towards the costs of relief teams in the US helping to re-build homes following the devastation caused by hurricane Katrina. Other small charitable donations were made to local charities. These smaller local donations are, on the whole, via requests from employees who have been involved personally in some way with these charities.

Board of Directors

Nick Prest CBE, aged 54
Chairman

Nick Prest joined the Board of AVEVA in January 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 51
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 42
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 62
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 50
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 ZBD Displays Limited and Pelikon Limited.

Other statutory information

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
The Group made a profit for the year after taxation of £17.8 million (2006 – £8.1 million). Revenue was £94.9 million (2006 – £65.9 million) and comprised of software licences, software maintenance and services.

The Directors recommend the payment of a final dividend of 2.94p per ordinary share (2006 – 1.73p). If approved at the forthcoming Annual General Meeting, the final dividend will be paid on 1 August 2007 to shareholders on the register at close of business on 29 June 2007.

Business review and future developments
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 Finance Director's review.

The Key Performance Indicators (KPIs) used by AVEVA to measure its own performance at the Group level are total revenue, adjusted profit before tax, adjusted earnings per share and headcount. The figures for the year ended 31 March 2007 are set out in the Finance Director's review on page 16, together with figures for the previous year.

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 (2006 – £nil). At 31 March 2007, the Group had an average of 13 days' purchases owed to trade creditors (2006 – 27 days).

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 23 to the financial statements.

Going concern
After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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

Nick Prest (Chairman)
David Mann (Non-executive Director)
Colin Garrett (Non-executive Director)
Richard Longdon
Paul Taylor

The interests (all of which are beneficial) in the shares of the Company of Directors who held office at 31 March 2007 that have been disclosed to the Company are as follows:

	2007 3.33p ordinary shares	2006 3.33p ordinary shares
Nick Prest	7,150	—
David Mann	26,700	53,400
Colin Garrett	3,000	—
Richard Longdon	500,000	721,428
Paul Taylor	50,000	24,000

The comparative share amounts have been restated to reflect the 3 for 1 share reorganisation which took place on 14 July 2006.

No changes took place in the interests of Directors in the shares of the Company between 31 March 2007 and 22 May 2007.

Directors' share options are disclosed in the Directors' remuneration report on pages 29 to 33.

Resolutions will be submitted to the Annual General Meeting for the re-election of Colin Garrett and Paul Taylor. Brief biographical details of all Directors, including those who are proposed for re-election, appear on page 22.

Other statutory information (continued)

Other substantial shareholdings

On 18 May 2007, the Company had been notified in accordance with sections 198 to 208 of the Companies Act 1985 or Disclosure and Transparency rule 5, of the following interests in the ordinary share capital of the Company:

Name of holder	Number	Percentage held
Nutraco Nominees Limited	4,418,976	6.56%
State Street Nominees Limited	2,866,435	4.25%

Charitable and political donations

During the year the Group made charitable donations totalling £33,057 (2006 – £16,727) of which £30,000 was paid to The Outward Bound Trust and £1,059 to The British Heart Foundation, with the remainder to local charities. The Group did not make any political donations (2006 – £nil).

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 6,736,702 ordinary shares until the earlier of 11 October 2008 and the date of the next Annual General Meeting. This represents 10% of the ordinary shares in issue at 22 May 2007 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 22 May 2007 (being the latest practicable date prior to the publication of the notice of the Annual General Meeting), there were 579,261 outstanding options granted under all share option plans operated by the Company which, if exercised, would represent 0.86% 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 0.96% of the issued ordinary share capital of the Company.

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 11 October 2008 and the date of the next Annual General Meeting up to a maximum nominal amount of £748,522 (representing 33.33% of the total issued ordinary share capital as at 22 May 2007). 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 £112,278 (approximately 5% of the issued ordinary share capital at 22 May 2007 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.

Other resolutions at the Annual General Meeting

Details of the other resolutions to be proposed at the Annual General Meeting are set out in the enclosed notice.

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 23. 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.

By order of the Board,

Paul Taylor
Company Secretary
22 May 2007

High Cross
Madingley Road
Cambridge CB3 0HB

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 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.4.2, A.4.3, A.4.6 A Nominations Committee has not been established because the full Board is actively involved in all Board appointments; and
- B.2.1 and C.3.1 The Audit Committee and the Remuneration Committee should only consist of independent Non-executive Directors. Up until 14 July 2006, the Chairman was a member of both Committees. The Company believed that it was appropriate for the Chairman to sit on both Committees given the size of the Board. The Chairman stood down as a member of the Audit and Remuneration Committees on 14 July 2006 in adherence with the Code provisions on independence which were in force at that time. The amendments made to the Code in 2006 now permit the Chairman to be a member of the Remuneration Committee.

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.

Composition and operation of the Board

The Board currently comprises the Chairman, 2 Non-executive Directors, including the senior independent Director, and 2 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 22. The membership of all Board Committees is set out below:

		Board	Audit	Remuneration
Nick Prest	Chairman	Chairman	—	—
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	—	—

The Board has considered the independence of the Non-executive Directors and believes that both are currently independent of management and free from any material business or other relationships that could materially interfere with the exercise of their independent judgement. 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 strategy of the Group, Corporate Governance, review of trading performance and forecasts, risk management, Board membership, communications with shareholders, the approval of major transactions including mergers and acquisitions, the approval of the financial statements and annual operating and capital expenditure budgets. The Board met 11 times during the year and the Board also conducted a full day strategy meeting, receiving presentations from senior management. The Board delegates the day to day responsibility for managing the Group to the executive Directors. 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 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	11	2	2
Nick Prest	11	1	2
David Mann	11	2	2
Colin Garrett	11	2	2
Richard Longdon	11	—	—
Paul Taylor	11	—	—

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.

Meetings were held between the Chairman and the Non-executive Directors during the year without the executives being present, to discuss appropriate matters as necessary.

The Combined Code requires that the Board undertake a formal annual evaluation of the Audit and Remuneration Committees' performance. The review involved the Directors completing individual questionnaires for the performance of the Board, the Audit Committee, the Remuneration Committee and individual Directors. The matters covered included Board structure, effectiveness information and communication. The results of the questionnaires were reviewed by the Chairman with the conclusion that the Board and its Committees are operating effectively. A formal evaluation of the performance of the executive Directors, Richard Longdon and Paul Taylor was also carried out by the Remuneration Committee as part of the process for determining their remuneration for the year.

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 3 years and Colin Garrett and Paul Taylor are subject to re-election at the forthcoming Annual General Meeting.

Audit committee

The Audit Committee met 2 times during the year and its members were Colin Garrett and David Mann. Nick Prest was appointed to the Audit Committee on his appointment to the Board in January 2006 and resigned from the Committee on 14 July 2006 in adherence with the Code provisions on independence. 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. The Committee also reviews 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. Controls in place to ensure that the independence and objectivity of the auditors is not compromised include monitoring of the independence and effectiveness of the audit, and a review of the scope, fee and performance of the external auditor. In addition, audit partners are rotated every 5 years and a formal statement of independence is received from the auditors each year. The Board is satisfied that the independence of the auditors has been maintained.

The Audit Committee monitors fees paid to the auditors for non-audit work. During the year there was limited non-audit work performed by the auditors. The Company engages other independent firms of accountants to perform tax consulting work and other consulting engagements to ensure that the independence of the auditors is not compromised. Copies of the Audit Committee's terms of reference are available on request from the Company's registered office during business hours.

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

Communication with shareholders is given high priority by the Board. The Chief Executive and the Finance Director have meetings with representatives of institutional shareholders and analysts at least twice a year, primarily following the announcement of the interim and full year results, but also at other times during the year as necessary. In addition, the Company held an investor day in September 2006 when a number of major shareholders visited the offices in Cambridge and received presentations from senior management. These meetings seek to build a mutual understanding of objectives with its major shareholders 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 and attend the Annual General Meeting, 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.

Corporate Governance statement (continued)

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure and by its very nature can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established a continuous process for identifying, evaluating and managing the significant risks the Group faces. During the year the Company engaged a 3rd party to help develop a more formal risk review process which involved senior managers throughout the Group. The Board regularly reviews the effectiveness of the Group's internal controls, which have been in place from the start of the year to the date of approval of this report and believes that it is in accordance with the Turnbull Guidance. The key elements of the systems of internal controls currently include:

- there is an executive Board comprising the Group executive Directors, Head of Sales, Head of Business Strategy, Head of Research and Development and Head of Human Resources. Each member has responsibility for specific aspects of the Group's operations. They meet on a regular basis and are responsible for the operational strategy, reviewing operating results, identification and mitigation of risks and communicating and application of the Group's policies and procedures. Where appropriate, matters are reported to the Board;
- the Board receive regular reports from the executive Directors, Head of Sales, Head of Human Resources, Regional Sales Managers and Head of Research and Development on key developments, performance and issues in the business;
- operational and financial controls and procedures which include authorisation limits for expenditure, sales contracts and capital expenditure, signing authorities, organisation structure, Group policies, segregation of duties and reviews by management;
- there is an annual budget process which is reviewed and approved by the Board;
- the executive Board has regular meetings with the Regional Sales managers and with Research and Development managers to discuss actual performance against forecast, budget and prior years. The operating results are reported on a monthly basis to the Board and compared to the budget and the latest forecast as appropriate; and
- insurance cover is maintained to insure all major risk areas of the Group based on the scale of the risk and availability of the cover in the external market.

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 and the relevant requirements of the Listing Rules of the Financial Services Authority (together "the Regulations"). The report also 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 business hours.

The conclusions and recommendations of the Committee were finalised in two formal meetings during the year, but these were preceded by several informal discussions, including some with advisers. The members of the Committee were David Mann (Chairman), Colin Garrett and (for part of the year) Nick Prest.

Nick Prest was appointed to the Remuneration Committee on his appointment to the Board on 11 January 2006 and he resigned from the Committee on 14 July 2006 in adherence with the Code provisions on independence which were in force at that time. The amendments made to the Combined Code in 2006 now permit the Chairman of the Board to be a member of the Remuneration Committee. 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, benefits and share-based awards that will achieve a balance in incentives to achieve short and long-term goals.

During the year the Remuneration Committee engaged New Bridge Street Consultants to review the remuneration of the executive Directors and senior management and to benchmark their remuneration against comparable companies. Based on the information provided by New Bridge Street Consultants, the Remuneration Committee made a recommendation, which the Board wishes to implement, concerning the introduction of a new short-term incentive plan for executive Directors and senior management. Subject to the achievement of performance conditions, the plan would reward the recipient partly in cash and partly in shares or share equivalents. The recipient would gain access to the shares or share equivalents in 3 equal tranches over a 3 year period, starting one year after the initial award. The Board believes that this incentive scheme more closely aligns the interests of executive Directors and senior management with shareholders' interests.

The AVEVA Group plc Executive Share Option and Employee Share Option schemes originally introduced in 1996 have now expired. By a special resolution proposed for this year's Annual General Meeting to be held on 12 July 2007, the Board is therefore seeking shareholder approval to replace them with a new share option scheme. Details of the new scheme are included in the enclosed Annual General Meeting notice.

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 2007 amounted to Richard Longdon £275,100 (2006 – £157,000) and Paul Taylor £183,500 (2006 – £102,000). For the year ended 31 March 2007 there was a cap on the bonus that an executive Director could earn under the scheme and the maximum payable was 100% of basic salary.

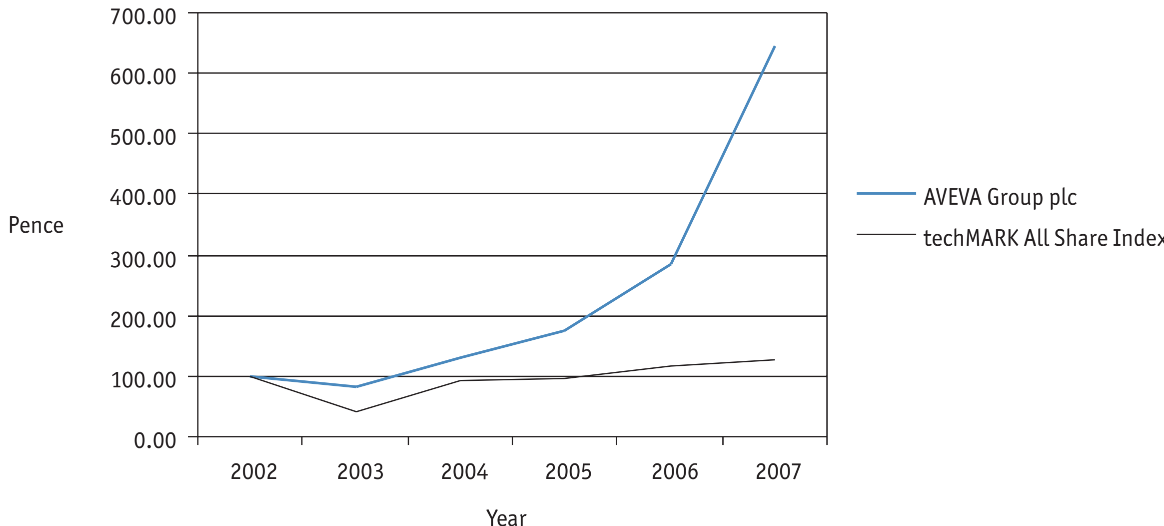
Directors' remuneration report (continued)

UNAUDITED INFORMATION (CONTINUED)

Total shareholder return performance graph

The Directors' Remuneration Report Regulations 2002 require the presentation of a performance graph of total shareholder return compared with a broad equity market index for a period of 5 years. 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 is the share price plus dividends reinvested compared against techMARK All Share Index, rebased to the start of the period.

Total shareholder return v techMARK All Share Index 2002 – 2007



The Directors consider the techMARK All Share Index to be an appropriate choice as the Index includes the Group.

Share awards

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. The Company's share schemes have therefore been used to provide long-term incentives to assist in creating and sustaining growth in share value. There have been 2 schemes in existence, the AVEVA Group plc Long-Term Incentive Scheme and the AVEVA Group plc Executive Share Option Scheme. The number of shares which may be allocated on exercise of any options granted under any of the Company's share option schemes (including employee schemes) shall not, when aggregated with the number of shares which have been allocated in the previous 10 years under these schemes, exceed 10% of the ordinary share capital of the Company in issue immediately prior to that date. Details of the awards made under these schemes are as follows:

Pre-2004 awards

The AVEVA Group plc Executive Share Option scheme was established in 1996 at the time of the Company's listing on the Official List of the London Stock Exchange. Options awarded under this scheme prior to 2004 are subject to performance conditions, which require earnings per share to outperform Retail Price Index (utilisation) (RPI) by a total of 10% over a 3 year rolling period. These conditions were consistent with performance conditions commonly used at that time.

2004 awards

In 2004 the Remuneration Committee commissioned a study by Deloitte & Touche LLP to review the Company's share options schemes and to make recommendations on their development. The Board accepted those recommendations and, following consultation with shareholders, the Company established the AVEVA Group plc Long Term Incentive Plan ("LTIP") which was approved at the Extraordinary General Meeting held in 2004. Under the LTIP options are granted to selected individuals to acquire ordinary shares at an exercise price equal to the nominal value of the shares; these options will be exercisable only if stringent performance criteria are met.

At the Extraordinary General Meeting in 2004, shareholders also approved that the dilutions limits under the AVEVA Group plc Executive Share Option scheme be extended to enable further awards to be made under this scheme.

In 2004, a total of 63,000 options were awarded to executive Directors under the new LTIP. The condition of exercise for these awards is based on the ranking of the Company in terms of its total shareholder return measured against 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% and above	100%
Median to 75%	Pro rata on a straight line basis
Median	33%
Below median	Nil

The performance conditions will be measured 3 years from the date of grant. There will be no retesting of the condition of exercise.

2005 awards

In 2005, a total of 162,816 options under the AVEVA Group plc Executive Share Option scheme were awarded to executive Directors. The Remuneration Committee felt that awards made as market value options were better suited at that time to the Company's circumstances.

The performance conditions required to be achieved for the exercise of the option would be that Earnings per Share (EPS) in the financial year ending 31 March 2008 would have grown to no less than 5% above the Retail Price Index per annum from that achieved in the financial year ended 31 March 2005. The performance condition was judged to be appropriately stretching because of the investment planned in the VNET programme during the period.

2006 awards

In 2006 a total of 42,588 share options were awarded to the executive Directors under the LTIP. The Committee decided to revert to this scheme, with performance conditions based on growth in earnings per share, but in this case the average growth in earnings per share achieved over the 3 years from 2006–07 to 2008–09. If average earnings per share growth is greater than 15% per annum then all of the shares shall vest. If average earnings per share growth is less than 7.5% per annum none of the shares shall vest. If average earnings per share growth is between 7.5% and 15% then the number of shares that shall vest will be determined by linear interpolation. The Remuneration Committee considered that these were challenging performance conditions in the context of the Company's budget and market expectations at the time of the awards.

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)
Nick Prest	10 January 2006	11 January 2006	3
David Mann	17 May 2000	8 June 1999	3
Colin Garrett	14 July 2000	1 August 2000	3
Richard Longdon	28 November 1996	28 November 1996	12
Paul Taylor	17 October 1989	1 March 2001	9

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

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

Directors' remuneration report (continued)

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	2007 Total £000	2006 Total £000
Nick Prest	—	75	—	—	75	16**
David Mann	—	28	—	—	28	28
Richard King	—	—	—	—	—	57*
Colin Garrett	—	28	—	—	28	28
Richard Longdon	275	—	275	20	570	439
Paul Taylor	183	—	183	17	383	289
Aggregate emoluments	458	131	458	37	1,084	857

* retired 1 April 2006

** from date of appointment (11 January 2006)

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.

Benefits in kind represent the provision of a company car or a mobility allowance and a fuel allowance.

Share options

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

Name	As at 1 April 2006 Number	Granted Number	Exercised Number	Lapsed Number	As at 31 March 2007 Number	Gain on exercise £	Exercise Price	Earliest date of exercise	Date of expiry
Richard Longdon	300,000	—	(300,000)	—	—	1,635,300	174.9p	19.01.04	18.01.08
	36,000	—	—	—	36,000	—	3.33p	01.07.07	30.06.11
	98,745	—	—	—	98,745	—	265.3p	20.07.08	20.07.12
	—	25,548	—	—	25,548	—	3.33p	28.06.09	28.06.13
Paul Taylor	213,000	—	(213,000)	—	—	1,161,063	174.9p	19.01.04	18.01.08
	27,000	—	—	—	27,000	—	3.33p	01.07.07	30.06.11
	64,071	—	—	—	64,071	—	265.3p	20.07.08	20.07.12
	—	17,040	—	—	17,040	—	3.33p	28.06.09	28.06.13

All share amounts have been restated to reflect the 3 for 1 share reorganisation on 14 July 2006.

The market price as at 31 March 2007 was £8.19 with a high-low spread for the year of £3.06 to £9.85.

During the year Richard Longdon and Paul Taylor exercised 300,000 and 213,000 options at an exercise price of 174.9p. The market price on the date of exercise was £7.20, which resulted in an aggregate gain on exercise of options for the year ended 31 March 2007 of £2,796,363 (2006 – £nil). At the same time, Richard Longdon sold a total of 521,428 ordinary shares (of which 221,428 ordinary shares were already owned) at a price of £7.20 and at 31 March 2007 held options over 160,293 ordinary shares and held 500,000 ordinary shares. Paul Taylor also sold 187,000 ordinary shares (of which nil were already owned) at £7.20 and at 31 March 2007 held options over 108,111 ordinary shares and held 50,000 ordinary shares.

The options are normally exercisable in full or in part between the 3rd and 7th anniversaries of the date of grant. Details of the performance conditions of share option awards are set out on pages 30 and 31.

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 registered with HMRC and since 1 October 2004 Career Average Revalued Earnings benefits apply. Under this scheme they are entitled to a pension on normal retirement, or on retirement due to ill health, equivalent to 2/3rds of their pensionable salary provided they have completed (or would have completed in the case of ill-health) 25 years' service. A pension earnings cap (in line with historic Inland Revenue's earning cap) applies to Paul Taylor when calculating pensionable 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 50 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 (2006 – none).

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

	Accumulated accrued pension at 31 March 2007 £	Accumulated accrued pension at 31 March 2006 £	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	116,075	108,177	7,898	2,683	17,535
P R Taylor	40,173	36,371	3,802	2,049	8,857

The pension entitlement shown is that which would be paid annually, based on 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 2007 £	31 March 2006 £	Movement, less Directors' contributions £
R Longdon	1,155,148	1,093,270	47,500
P R Taylor	304,048	280,410	15,497

The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. 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.

By order of the Board,

Paul Taylor
Company Secretary
22 May 2007

High Cross
Madingley Road
Cambridge
CB3 0HB

Statement of Directors' responsibilities – IFRS

Statement of Directors' responsibilities in relation to the consolidated 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 (IFRS) as adopted by the European Union.

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

- select suitable accounting policies in accordance with IAS 8 and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs 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, 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 Group and enable them to ensure that the Consolidated financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's report – IFRS

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 2007 which comprise the Consolidated income statement, the Consolidated statement of recognised income and expense, the Consolidated balance sheet, the Consolidated cash flow statement and the related notes 1 to 29. 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 2007 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities 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 are 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 and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements.

In addition we 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 9 provisions of the 2003 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. 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.

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 judgements 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 2007 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
22 May 2007

Consolidated income statement
For the year ended 31 March 2007

	Notes	2007 £000	2006 £000
Revenues	5, 6	94,906	65,930
Cost of sales		(27,269)	(21,514)
Gross profit		67,637	44,416
Operating expenses			
Selling and distribution costs		(30,541)	(21,742)
Administrative expenses		(13,061)	(11,439)
Total operating expenses		(43,602)	(33,181)
Profit from operations	7	24,035	11,235
Finance revenue	8	2,297	1,498
Finance expense	9	(1,682)	(1,578)
Profit before tax		24,650	11,155
Analysis of profit before tax			
Profit before tax, share-based payments, amortisation and goodwill adjustment		28,083	13,822
Share-based payments		(177)	—
Adjustment to carrying value of goodwill in respect of utilisation of tax losses		(1,136)	(602)
Amortisation of intangibles (excluding other software)		(2,120)	(2,065)
Profit before tax		24,650	11,155
Income tax expense	11	(6,844)	(3,079)
Profit for the year attributable to equity holders of the parent		17,806	8,076
Earnings per share (pence)			
– basic	13	26.59p	12.14p
– diluted	13	26.32p	12.04p

All activities relate to continuing activities.

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

Consolidated statement of recognised income and expense
For the year ended 31 March 2007

	Notes	2007 £000	2006 £000
Tax on items recognised directly in equity	11(a)	1,979	(60)
Exchange differences arising on translation of foreign operations		(1,872)	454
Actuarial (loss)/gain on defined benefit pension schemes	25	(2,694)	1,328
Net (loss)/income recognised directly in equity		(2,587)	1,722
Profit for the year		17,806	8,076
Total recognised income and expense relating to the year attributable to equity holders of the parent		15,219	9,798

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

Consolidated balance sheet
31 March 2007

	Notes	2007 £000	2006 £000
Non-current assets			
Goodwill	14	15,062	16,612
Other intangible assets	15	12,028	13,584
Property, plant and equipment	16	4,752	4,905
Deferred tax assets	24	3,628	2,876
Other receivables	18	261	268
		35,731	38,245
Current assets			
Trade and other receivables	18	36,546	26,896
Current tax assets		258	428
Cash and cash equivalents	19	41,287	24,173
		78,091	51,497
Total assets		113,822	89,742
Equity			
Issued share capital	27	2,245	2,225
Share premium	28	26,381	25,353
Other reserves	28	2,745	4,617
Retained earnings	28	33,941	18,665
Total equity	28	65,312	50,860
Current liabilities			
Trade and other payables	20	33,259	24,192
Financial liabilities	21	168	832
Current tax liabilities		6,907	5,643
		40,334	30,667
Non-current liabilities			
Deferred tax liabilities	24	3,105	3,795
Financial liabilities	21	128	265
Retirement benefit obligations	25	4,943	4,155
		8,176	8,215
Total equity and liabilities		113,822	89,742

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 22 May 2007. They were signed on its behalf by:

Nick Prest
Director

Richard Longdon
Director

22 May 2007

Consolidated cash flow statement
For the year ended 31 March 2007

	Notes	2007 £000	2006 £000
Cash flows from operating activities			
Profit for the year		17,806	8,076
Income tax		6,844	3,079
Net finance (revenue)/expense		(615)	80
Depreciation of property, plant and equipment		1,254	926
Amortisation of intangible assets		2,167	2,276
(Profit)/loss on disposal of non-current assets		(12)	6
Share-based payments		177	84
Difference between pension contributions paid and amounts recognised in income statement		(1,902)	(266)
Adjustment to carrying value of goodwill		1,136	602
Changes in working capital:			
Trade and other receivables		(9,298)	(999)
Trade and other payables		9,193	807
Fair value of forward contracts		7	—
Provisions		—	(988)
Cash generated from operating activities before tax		26,757	13,683
Income taxes paid		(4,810)	(1,353)
Net cash generated from operating activities		21,947	12,330
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,241)	(1,026)
Interest received		547	170
Proceeds from disposal of property, plant and equipment		85	49
Purchase of intangible assets		(1,056)	(38)
Net cash used in investing activities		(1,665)	(845)
Cash flows from financing activities			
Interest paid		(43)	(60)
Proceeds from the issue of shares		1,048	1,051
Payment of finance lease liabilities		(157)	(14)
Proceeds from sale and leaseback		—	364
Dividends paid to equity holders of the parent		(1,992)	(1,442)
Net cash flows from financing activities		(1,144)	(101)
Net increase in cash and cash equivalents		19,138	11,384
Net foreign exchange difference		(1,354)	908
Opening cash and cash equivalents	19	23,503	11,211
Closing cash and cash equivalents	19	41,287	23,503

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

Notes to the financial statements – IFRS

1 Corporate information

AVEVA Group plc is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 72. 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 2007. The Consolidated financial statements are presented in pounds Sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

The comparative amounts for the South Korean severance pay provision of £294,000 as described in note 25(c) has been reclassified from provisions to retirement obligations because the Directors believe that this best reflects the nature of the arrangements. There is no impact on the Group's profits or net assets.

The Group presents adjusted profit before tax on the face of the Consolidated income statement disclosing those material items of operating income and expense which materially impact the underlying performance of the business. The Directors believe that adjusted profit before tax allows shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods in assessing trends in financial performance.

a) Statement of compliance

The Consolidated financial statements of AVEVA Group plc and all its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2007. The Group's financial statements are also consistent with IFRSs as issued by the IASB.

The parent Company financial statements of AVEVA Group plc have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and are included at pages 65 to 68.

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 2007 was £15,062,000 (2006 – £16,612,000).

b) Defined benefit pension schemes

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 25 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 Statement of recognised income and expense in future years and the future staff costs. The carrying amount of retirement benefit obligations at 31 March 2007 was £4,943,000 (2006 – £4,155,000).

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 licenses its software using a token licensing 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 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 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.

If the potential benefit of tax losses or other deferred tax assets did not satisfy the criteria in IFRS 3 for separate recognition when a business combination is initially accounted for but is subsequently realised, the Group recognises the deferred tax income in the Income statement. In addition, the Group also reduces the carrying value of the related goodwill by the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date with a corresponding entry to administrative expenses.

Notes to the financial statements – IFRS (continued)

4 Summary of significant accounting policies (continued)

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 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:

Tribon developed technology	5 years
Realitywave developed technology	12 years
Tribon customer relationships	20 years
Other software	3 years
Purchased software rights	5 – 10 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	3 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.

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 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 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

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 Balance sheet with any movements being recorded in the 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 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.

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 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 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 Income statement.

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

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax 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 sales taxes included.

The net amount of sales taxes 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 Group also provides certain post employment benefits to its South Korean employees.

The UK defined benefit pension scheme, previously available to all UK employees, was closed to new applicants in 2002. UK employees are now offered membership of a defined contribution scheme.

The German unfunded defined benefit scheme is closed to new applicants and provides benefits to five deferred members following an acquisition in 1992 by Tribon. No current employees participate in the scheme. Full provision has been made for the liability on the Balance sheet. The Group also operates a defined benefit pension scheme for one German employee.

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.

Notes to the financial statements – IFRS (continued)

4 Summary of significant accounting policies (continued)

m) Post retirement benefits (continued)

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. 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 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 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 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 Statement of recognised income and expense 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 before tax 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 26. 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.

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 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

*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 IFRS 7, 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.

5 Revenues

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

	2007 £000	2006 £000
Annual fees	17,396	15,436
Rental fees	32,195	22,224
Recurring services	3,060	3,215
Total recurring revenues	52,651	40,875
Initial licence fees	34,185	17,570
Services	8,070	7,485
Total revenues	94,906	65,930
Finance revenue	2,297	1,498
	97,203	67,428

Services consist of consultancy and training fees.

6 Segment information

For management purposes, the Group is organised on a geographical basis into four main sales regions: Asia Pacific, Americas, Central Eastern and Southern Europe (CES) and Western Europe, Middle East and Africa (WEMEA). Corporate functions and Research and Development operations are principally based in the UK and Sweden and are therefore not included in the sales regions analysis. 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.

Notes to the financial statements – IFRS (continued)

6 Segment information (continued)

Geographical segments Year ended 31 March 2007	Asia Pacific £000	WEMEA £000	CES £000	Americas £000	Unallocated £000	Total £000
Income statement						
Revenue						
Segment revenue	36,871	21,744	22,808	13,483	—	94,906
Result						
Segment result	21,116	14,216	13,513	7,882	—	56,727
Unallocated expenses						
Corporate overheads					(15,085)	(15,085)
Research and Development costs					(17,607)	(17,607)
Profit from operations						24,035
Finance revenue						2,297
Finance expense						(1,682)
Profit before tax						24,650
Income tax expense						(6,844)
Net profit for the year						17,806
Assets and liabilities						
Segment assets	35,902	9,039	17,761	4,918		67,620
Unallocated corporate assets					46,202	46,202
Consolidated total assets						113,822
Segment liabilities	(13,376)	(3,817)	(6,303)	(2,298)		(25,794)
Unallocated corporate liabilities					(22,716)	(22,716)
Consolidated total liabilities						(48,510)
Other segment information						
Capital expenditure						
Property, plant and equipment	503	30	120	56	532	1,241
Intangible assets	—	—	—	—	1,056	1,056
Depreciation	(247)	(8)	(109)	(76)	(814)	(1,254)
Amortisation	—	—	—	—	(2,167)	(2,167)

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						11,235
Finance revenue						1,498
Finance expense						(1,578)
Profit before tax						11,155
Income tax expense						(3,079)
Net profit for the year						8,076
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						89,742
Segment liabilities	(10,382)	(1,710)	(4,818)	(1,793)		(18,703)
Unallocated corporate liabilities					(20,179)	(20,179)
Consolidated total liabilities						(38,882)
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)

7 Profit from operations

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

	2007 £000	2006 £000
Depreciation of owned property, plant and equipment	1,148	873
Depreciation of property, plant and equipment held under finance leases	106	53
Amortisation of intangible assets		
– included in cost of sales	1,775	1,724
– included in administrative expenses	79	242
– included in selling and distribution costs	313	310
Research and Development costs (included in cost of sales)	17,607	13,949
Staff costs	38,252	28,962
Operating lease rentals – minimum lease payments	1,715	1,990
(Profit)/loss on disposal of property, plant and equipment	(12)	6
Adjustment to goodwill in respect of the benefit received from utilisation of tax losses (included in administrative expenses)	1,136	602
Net foreign exchange losses/(gains)	2,251	(675)

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	2007 £000	2006 £000
Fees payable to the Company auditor for the audit of parent Company and consolidated accounts	221	237
Fees payable to the Company auditor and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	63	73
– tax services	19	65
– other services pursuant to legislation	—	45
	303	420

8 Finance revenue

	2007 £000	2006 £000
Expected return on pension scheme assets	1,750	1,328
Bank interest receivable	547	170
	2,297	1,498

9 Finance expense

	2007 £000	2006 £000
Bank interest payable and similar charges	43	60
Finance lease interest	19	11
Interest on pension scheme liabilities	1,620	1,507
	1,682	1,578

10 Staff costs

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

	2007 £000	2006 £000
Wages and salaries	31,139	22,998
Social security costs	3,855	3,192
Other pension costs	3,081	2,688
Expense of share-based payments	177	84
	38,252	28,962

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

	2007 Number	2006 Number
Research, development and product support	201	180
Sales, marketing and customer support	221	213
Administration	107	93
	529	486

Directors' remuneration

The disclosure of individual Director's 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 32 and 33 and form part of these financial statements.

Notes to the financial statements – IFRS (continued)

11 Income tax expense

a) Tax on profit

The major components of income tax expense for the years ended 31 March 2007 and 2006 are as follows:

	2007 £000	2006 £000
Tax charged in income statement		
Current tax		
UK corporation tax	2,557	1,963
Adjustments in respect of prior periods	(327)	(15)
	2,230	1,948
Foreign tax	4,729	2,902
Adjustments in respect of prior periods	327	(14)
Total current tax	7,286	4,836
Deferred tax		
Origination and reversal of temporary differences (note 24)	(442)	(1,757)
Total income tax expense reported in Consolidated income statement	6,844	3,079

	2007 £000	2006 £000
Tax relating to items charged or credited directly to equity		
Current tax		
Tax benefit of share option exercises	979	—
Deferred tax		
Deferred tax on share options	16	298
Deferred tax on retranslation of intangible assets	173	40
Deferred tax on actuarial (loss)/gain on defined benefit pension scheme	811	(398)
Tax credit/(charge) directly to equity	1,979	(60)

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:

	2007 £000	2006 £000
Tax on Group profit before tax at standard UK corporation tax rate of 30% (2006 – 30%)	7,395	3,347
Effects of:		
Expenses not deductible for tax purposes	951	861
Movement on unprovided deferred tax balances	(566)	(387)
Higher/(lower) tax rates on overseas earnings	352	(97)
UK tax on remitted earnings	517	—
Relief for losses previously not recognised	(1,136)	(602)
Unrelieved tax losses	—	64
Adjustments in respect of prior years	(669)	(107)
Income tax expense reported in the Consolidated income statement	6,844	3,079

The effective tax rate is lower than the UK standard rate due to the benefit of tax losses and other unrecognised deferred tax assets. After adjusting for these items the effective rate is higher than the UK standard rate due to a proportion of the Group's profit being earned in overseas entities, subject to higher rates of tax.

12 Dividends paid and proposed on equity shares

Declared and paid during the year	2007 £000	2006 £000
Interim 2006/7 dividend paid of 1.24p (2005/6 – 0.73p) per ordinary share	835	490
Final 2005/6 dividend paid of 1.73p (2004/5 – 1.43p) per ordinary share	1,157	952
	1,992	1,442
Proposed for approval by shareholders at the Annual General Meeting		
Final proposed dividend 2006/7 of 2.94p (2005/6 – 1.73p) per ordinary share	1,980	1,157

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 12 July 2007 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 2007 to shareholders on the register at the close of business on 29 June 2007.

The dividend per share amounts have been restated in prior periods to reflect the 3 for 1 share reorganisation which was approved at the Annual General Meeting on 14 July 2006.

13 Earnings per share

The calculations of earnings per share from continuing operations are based on the profit after tax for the year of £17,806,000 (2006 – £8,076,000) and the following weighted average numbers of shares:

	2007 Number	2006 Number
Weighted average number of ordinary shares for basic earnings per share	66,970,870	66,532,626
Effect of dilution: Employee share options	687,951	532,389
Weighted average number of ordinary shares adjusted for the effect of dilution	67,658,821	67,065,015
Earnings per share for the year:		
Basic	26.59p	12.14p
Diluted	26.32p	12.04p
Adjusted earnings per share for the year:		
Basic	31.71p	16.15p
Diluted	31.39p	16.02p

Adjusted basic and adjusted diluted earnings per share is calculated based on an adjusted profit after tax of £21,239,000 (2006 – £10,743,000) obtained by adding intangible amortisation (excluding other software) of £2,120,000 (2006 – £2,065,000), share-based payments of £177,000 (2006 – £nil) and adjustment to carrying value of goodwill of £1,136,000 (2006 – £602,000) to the profit after tax for the year of £17,806,000 (2006 – £8,076,000). The denominators used are the same as those detailed above for both basic and diluted earnings per share.

The adjustment 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.

The weighted average number of shares has been restated in prior periods to reflect the 3 for 1 share reorganisation which was approved at the Annual General Meeting on 14 July 2006.

14 Goodwill

	£000
At 1 April 2005	17,157
Adjustment to carrying value of Tribon Solutions AB	(602)
Exchange adjustment	57
At 31 March 2006	16,612
Adjustment to carrying value of Tribon Solutions AB	(280)
Adjustment to carrying value of Realitywave Inc	(856)
Exchange adjustment	(414)
At 31 March 2007	**15,062**

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 adjustments to the carrying value of the Tribon Solutions AB and Realitywave Inc. goodwill are due to the post-acquisition utilisation of tax losses, which were not recognised as deferred tax assets on acquisition.

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

Notes to the financial statements – IFRS (continued)

14 Goodwill (continued)

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 to CGUs as follows:

Year ended 31 March 2007	WEMEA £000	Asia Pacific £000	CES £000	Americas £000	Total £000
Tribon Solutions AB	267	7,018	5,374	291	12,950
Realitywave Inc	199	200	200	200	799
AEA Technology	—	108	—	976	1,084
Kyokuto Boeki Kaisha	—	229	—	—	229
	466	7,555	5,574	1,467	15,062

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

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 2008 and extrapolates cash flows for the following 4 years based on an average estimated growth rate of between 10% and 15%. Future cash flows are discounted in line with the weighted average cost of capital of approximately 10% pre-tax.

15 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
Additions	—	—	—	16	1,040	1,056
Disposals	—	—	—	(33)	—	(33)
Exchange adjustment	(87)	(366)	(94)	(5)	—	(552)
At 31 March 2007	5,694	2,853	6,185	973	4,563	20,268
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
Charge for the year	1,153	250	313	47	404	2,167
Disposals	—	—	—	(33)	—	(33)
Exchange adjustment	(46)	(43)	(13)	(5)	—	(107)
At 31 March 2007	3,266	475	887	958	2,654	8,240
Net book value						
At 31 March 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
At 31 March 2007	2,428	2,378	5,298	15	1,909	12,028

For the purposes of the adjusted earnings per share calculation (note 13), intangible asset amortisation excludes the charge relating to other software of £47,000 (2006 – £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. These purchased software rights are being amortised on a straight-line basis over 10 years. During the year the Group acquired a source code license for certain software from Spescom Software Inc. for the sum of £1,040,000 ($2,000,000). This software is being amortised on a straight-line basis over 5 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 5 and 20 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 12 years using the straight-line method.

Other software represents third party software and is being amortised over 3 years using the straight-line method.

16 Property, plant and equipment

	Long leasehold 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
Additions	43	626	256	316	1,241
Disposals	—	(31)	(27)	(212)	(270)
Exchange adjustment	—	(7)	(125)	(9)	(141)
At 31 March 2007	3,209	7,363	3,245	561	14,378
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
Charge for the year	75	716	338	125	1,254
Disposals	—	(24)	(13)	(160)	(197)
Exchange adjustment	—	(45)	(32)	3	(74)
At 31 March 2007	484	6,461	2,515	166	9,626
Net book value					
At 31 March 2005	2,789	733	1,156	201	4,879
At 31 March 2006	2,757	961	919	268	4,905
At 31 March 2007	2,725	902	730	395	4,752

The net book value of computer equipment includes an amount of £115,000 (2006 – £222,000) 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 (2006 – £nil).

Notes to the financial statements – IFRS (continued)

17 Investments

At 31 March 2007 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 €25,565 each
AVEVA SA	France	Software marketing	100% ordinary shares of €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
AVEVA AB	Sweden	Software development and marketing	100% of ordinary shares of SEK 10 each
Tribon Solutions (UK) Limited***	Great Britain	Dormant	100% of ordinary shares of £1 each
AVEVA 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 SEK 100 each
Tribon Solutions Consultancy Shanghai Co Limited***	China	Services and training	100% of issued share capital
AVEVA Software and Services S.A. de C.V.	Mexico	Software marketing	100% of ordinary shares of US$50 each
AVEVA Limited Liability Company	Russia	Software marketing	100% of ordinary shares

* Held by AVEVA Group plc.

** 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.

*** Held by AVEVA AB.

On 1 July 2006 Tribon Solutions Korea Limited was merged with AVEVA Korea Limited. On 31 January 2007, Realitywave Inc. transferred its trade and assets to AVEVA Inc. and was dissolved.

18 Trade and other receivables

	2007 £000	2006 £000
Current		
Amounts falling due within one year:		
Trade receivables	35,046	23,198
Prepayments and other receivables	1,307	1,488
Accrued income	193	2,210
	36,546	26,896

Trade receivables are non-interest bearing and generally on terms of between 30 and 90 days. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

	2007 £000	2006 £000
Non-current		
Prepayments and other receivables	261	268

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

19 Cash and cash equivalents

	2007 £000	2006 £000
Cash at bank and in hand	14,623	19,454
Short-term deposits	26,664	4,719
	41,287	24,173
Bank overdraft	—	(670)
Net cash and cash equivalents per cash flow	41,287	23,503

20 Trade and other payables

	2007 £000	2006 £000
Current		
Trade payables	770	1,195
Social security, employee taxes and sales taxes	3,438	2,350
Other payables	117	502
Accruals	13,537	7,653
Deferred income	15,397	12,492
	33,259	24,192

Trade payables are non-interest bearing and are normally settled on terms of between 30 and 60 days. Social security, employee taxes and sales taxes are non-interest bearing and are normally settled on terms of between 19 and 30 days. The Directors consider that the carrying amount of trade and other payables approximates their fair value.

21 Financial liabilities

	2007 £000	2006 £000
Current		
Fair value of forward contracts	32	25
Bank overdrafts	—	670
Current obligations under finance leases	136	137
	168	832
Non-current		
Non-current obligations under finance leases	128	265

Borrowing facilities

The Group had a committed UK borrowing overdraft facility and revolving loan facility at 31 March 2007 of £3,000,000 and £3,000,000 respectively (2006 – £3,000,000 and £3,000,000 respectively) of which £nil (2006 – £700,000) of the overdraft had been drawn down at 31 March 2007. 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 2007 of which £nil (2006 – £670,000) had been drawn down.

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

Notes to the financial statements – IFRS (continued)

22 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:

	2007 £000	2006 £000
Future minimum payments due:		
Not later than one year	151	157
After one year but not more than five years	128	278
Less: finance charges allocated to future periods	(15)	(33)
	264	402
The present value of minimum lease payments is analysed as follows:		
Not later than one year	136	137
After one year but not more than five years	128	265
	264	402

At 31 March 2007 the Group had the following future minimum rentals payable under non-cancellable operating leases as follows:

	2007		2006	
	Land and buildings £000	Plant and machinery £000	Land and buildings £000	Plant and machinery £000
Not later than one year	707	203	1,144	332
After one but not more than five years	1,328	552	2,115	305
	2,035	755	3,259	637

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 5 years. Certain property leases contain an option for renewal.

23 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 3 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 expense.

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 Income statement impact in 2007 was a charge of £281,000 (2006 – £2,291,000). 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 2007

Fixed rate	Within 1 year £000	1–2 years £000	2–3 years £000	Total £000
Obligations under finance leases	(136)	(128)	—	(264)

Floating rate	Within 1 year £000	1–2 years £000	2–3 years £000	Total £000
Cash and short-term deposits	41,287	—	—	41,287

Year ended 31 March 2006

Fixed rate	Within 1 year £000	1–2 years £000	2–3 years £000	Total £000
Obligations under finance leases	(137)	(140)	(125)	(402)

Floating rate	Within 1 year £000	1–2 years £000	2–3 years £000	Total £000
Cash and short-term deposits	24,173	—	—	24,173
Bank overdrafts	(670)	—	—	(670)

e) Fair values

The book values of the Group's financial assets and liabilities consist of bank and cash balances of £41,287,000 (2006 – £24,173,000), bank overdraft of £nil (2006 – £670,000), finance leases of £264,000 (2006 – £402,000) and forward foreign exchange contracts of £32,000 (2006 – £25,000).

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

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 2007 the Group held the following forward exchange contracts. The terms of these contracts are as follows:

Forward contracts to sell	Maturity	Exchange rate
US$ 3,000,000	1 June 2007	£1/$1.9346
EUR 3,000,000	29 June 2007	£1/€1.4571
EUR 2,000,000	1 October 2007	£1/€1.4633
EUR 2,000,000	2 January 2008	£1/€1.4580
EUR 3,000,000	28 March 2008	£1/€1.4531
EUR 250,000	15 May 2007	€1/SEK 9.317
EUR 250,000	15 June 2007	€1/SEK 9.307

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

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

Notes to the financial statements – IFRS (continued)

24 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 2006	(369)	(249)	1,039	(3,784)	634	1,810	(919)
Credit to income statement	452	7	(627)	516	47	47	442
Credit to equity	—	—	811	—	16	173	1,000
At 31 March 2007	83	(242)	1,223	(3,268)	697	2,030	523

*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:

	2007 £000	2006 £000
Deferred tax liabilities	(3,105)	(3,795)
Deferred tax assets	3,628	2,876
	523	(919)

At the Balance sheet date, the Group has unused tax losses of £1,247,000 (2006 – £2,317,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictably of future profit streams. Included in unrecognised deferred tax assets are losses of £498,000 (2006 – £929,000) that will expire over the years 2010 to 2014 (2006 – 2009 to 2013). Other losses may be carried forward indefinitely.

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 £16,500,000 (2006 – £14,958,000).

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.

25 Retirement benefit obligations

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

	UK defined benefit scheme £000	German defined benefit schemes £000	South Korean severance pay £000	Total £000
At 31 March 2005	4,872	404	232	5,508
Current service cost	1,073	—	76	1,149
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)	(23)	(1,364)
Exchange adjustment	—	2	9	11
At 31 March 2006	3,460	401	294	4,155
Reclassification	—	126	—	126
Current service cost	1,346	36	107	1,489
Interest on pension scheme liabilities	1,607	13	—	1,620
Expected return on pension scheme assets	(1,750)	—	—	(1,750)
Actuarial loss/(gain)	2,704	(10)	—	2,694
Employer contributions	(3,294)	(26)	(35)	(3,355)
Exchange adjustment	—	(10)	(26)	(36)
At 31 March 2007	4,073	530	340	4,943

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 Resource 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:

	2007 %	2006 %
Main assumptions:		
Rate of salary increases	4.90	4.75
Rate of increase of pensions in payment	2.90	2.75
Rate of increase of pensions in deferment	2.90	2.75
Discount rate	5.20	4.90
Inflation assumption	2.90	2.75
Expected rate of return on scheme assets:		
Equities	6.65	6.50
Bonds	3.70	4.50
Other	4.25	3.75

For the years ended 31 March 2007 and 2006, the following weighted average life expectancy at age 65 for mortality has been used:

	2007 Years	2006 Years
Male pensioners	21.9	17.8
Female pensioners	24.8	20.7
Non-retired males	23.0	19.4
Non-retired females	25.8	22.4

Member contributions were 7.5% (2006 – 7.5%) of pensionable salary and Company contributions were £3,294,000 (2006 – £1,314,000), which included a one-off special contribution of £2,000,000 (2006 – £nil). The total contributions in 2008 are expected to be approximately £1,300,000.

The assets and liabilities of the scheme at 31 March 2007 and 2006 were as follows:

	2007 £000	2006 £000
Equities	26,501	23,657
Bonds	4,828	3,693
Other	966	417
Total fair value of assets	32,295	27,767
Present value of scheme liabilities	(36,368)	(31,227)
Net pension liability	(4,073)	(3,460)

Notes to the financial statements – IFRS (continued)

25 Retirement benefit obligations (continued)

a) UK defined benefit scheme (continued)

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

	2007 £000	2006 £000
Recognised in the Consolidated income statement		
Current service cost	1,346	1,073
Total operating charge	1,346	1,073
Finance revenue		
Expected return on pension scheme assets	(1,750)	(1,328)
Finance expense		
Interest on pension scheme liabilities	1,607	1,485
Taken to Consolidated statement of recognised income and expense		
Actual return on pension scheme assets	1,216	5,841
Less: expected return on pension scheme assets	(1,750)	(1,328)
	(534)	4,513
Changes in assumptions	(2,170)	(3,185)
Actuarial (loss)/gain recognised in Consolidated statement of recognised income and expense	(2,704)	1,328

Of the total operating charge for the year of £1,346,000 (2006 – £1,073,000), £894,000 (2006 – £703,000) has been included in cost of sales, £170,000 (2006 – £133,000) has been included in administrative expenses and £282,000 (2006 – £237,000) has been included in selling and distribution costs. Actuarial gains and losses have been reported in the Consolidated statement of recognised income and expense.

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

	2007 £000	2006 £000
At 1 April	31,227	25,484
Current service costs	1,346	1,073
Contributions by employees	448	436
Interest on pension scheme liabilities	1,607	1,485
Benefits paid	(396)	(411)
Premiums paid	(34)	(25)
Actuarial loss	2,170	3,185
At 31 March	36,368	31,227

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

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

	2007 £000	2006 £000
At 1 April	27,767	20,612
Expected return	1,750	1,328
Contributions by employer	3,294	1,314
Contributions by employees	448	436
Benefits paid	(396)	(411)
Premiums paid	(34)	(25)
Actuarial (loss)/gain	(534)	4,513
At 31 March	32,295	27,767

The history of experience adjustments is as follows:

	2007 £000	2006 £000	2005 £000
Fair value of scheme assets	32,295	27,767	20,612
Present value of defined benefit obligations	(36,368)	(31,227)	(25,484)
Deficit in the scheme	(4,073)	(3,460)	(4,872)
Experience adjustments on scheme liabilities	—	—	800
Experience adjustments on scheme assets	(534)	4,513	700

The cumulative amount of actuarial gains and losses since 1 April 2004 recognised directly within equity was a loss of £476,000 (2006 – gain of £2,228,000). 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 schemes. 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 expense before 1 April 2004.

b) German defined benefit schemes

There are two defined benefit pension schemes in AVEVA GmbH. Tribon Solutions GmbH operated an unfunded defined benefit scheme that provides benefits to 5 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. The scheme was transferred to AVEVA GmbH when Tribon Solutions GmbH and AVEVA GmbH merged in 2005.

In addition, AVEVA GmbH operates a defined benefit pension scheme for one employee. This scheme is closed to new members. In the prior years this was classified within current liabilities.

Details of the actuarial assumptions used to value these schemes in accordance with IAS 19 are set out below:

	2007	2006
Rate of increase of pension in payment	0%	0%
Discount rate	4.50%	4.0%
Mortality	16 years	14 years
Rate of salary increases	2.5%	2.5%

Analysis of movements in the present value of the defined benefit pension obligations during the year are set out below:

	2007 £000	2006 £000
At 1 April	401	404
Reclassification	126	—
Current service cost (included in selling and distribution costs)	36	—
Interest on pension scheme liabilities (included in finance expense)	13	22
Employer contributions	(26)	(27)
Actuarial loss (included in Consolidated statement of recognised income and expense)	(10)	—
Exchange adjustment	(10)	2
At 31 March	530	401

The contributions in 2008 are expected to be approximately £25,000.

Notes to the financial statements – IFRS (continued)

25 Retirement benefit obligations (continued)

c) South Korean severance pay

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. In the prior year this amount was classified within provisions. An IAS 19 valuation of the liability has been carried out using the following assumptions:

	2007 %	2006 %
Rate of salary increases	12	12
Discount rate	5	5
Inflation assumption	2.9	2.9

Analysis of movements in the present value of the obligation during the year are set out below:

	2007 £000	2006 £000
At 1 April	294	232
Current service cost (included in selling and distribution costs)	107	76
Payment of benefits	(35)	(23)
Exchange adjustment	(26)	9
At 31 March	340	294

d) Other retirement schemes

All Swedish employees employed by AVEVA AB aged 28 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 because this information is not provided by the scheme and therefore has accounted for the scheme as if it was a defined contribution pension scheme. At 31 March 2007, Alecta's surplus in the form of collective funding level was 153% (2006 – 141.7%) which was calculated in accordance with the Swedish Annual Accounts Act for Insurance Companies. The total cost charged to income was £447,000 (2006 – £532,000).

e) Defined contribution schemes

The Group operates defined contribution retirement schemes for certain of 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 £1,145,000 (2006 – £1,083,000) represents contributions payable to these schemes by the Group at the rates specified in the rules of the plans.

26 Share-based payment plans

The Group operates 2 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 ("Executive Scheme" and "Employee Scheme" respectively). The number of shares and exercise prices disclosed in prior periods have been restated to reflect the 3 for 1 share reorganisation which was approved at the Annual General Meeting on 14 July 2006. 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:

	2007 Number	2007 WAEP (p)	2006 Number	2006 WAEP (p)
Outstanding at start of year[1]	1,123,131	177.43	1,525,500	156.23
Granted during year	78,648	3.33	255,531	265.33
Forfeited during year	—	—	(10,650)	146.97
Exercised during year[2]	(608,718)	172.26	(644,850)	163.00
Expired during year	(10,200)	118.45	(2,400)	59.73
Outstanding at end of year	582,861	160.52	1,123,131	177.43
Exercisable at end of year	158,682	158.79	777,600	168.72

[1] Included within this balance are options over 158,682 (2006 – 777,600) 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 £7.28 (2006 – £2.60).

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 2007	Number of options 2006	Exercise price (p)
30 March 2000	Employee Scheme	3,600	26,700	114.17
19 January 2001	Employee Scheme	—	14,802	174.90
19 January 2001	Executive Scheme	—	524,598	174.90
12 July 2001	Employee Scheme	34,350	90,768	159.83
12 July 2001	Executive Scheme	120,732	120,732	159.83
1 July 2004	LTIP	90,000	90,000	3.33
20 July 2005	Employee Scheme	11,304	11,304	265.33
20 July 2005	Executive Scheme	244,227	244,227	265.33
28 June 2006	LTIP	78,648	—	3.33
		582,861	1,123,131	

These options are normally exercisable in full or in part between the 3rd and 7th anniversaries of the date of grant.

The weighted average remaining contractual life for the options outstanding at 31 March 2007 is 3.2 years (2006 – 3.2 years).

The average fair value of options granted during the year was £3.53 (2006 – £0.89).

The range of exercise prices for options outstanding at the end of the year was £0.03 to £2.65 (2006 – £0.03 to £2.65).

The Group recognised total expenses of £177,000 and £84,000 related to equity-settled share-based payment transactions in the years ended 31 March 2007 and 2006 respectively.

Details of the share option plans are as follows:

a) Long-Term Incentive Plan (LTIP)

On 28 June 2006 a total of 78,648 share options were granted under the AVEVA Group plc LTIP. The exercise price of the options is equal to the nominal value of the underlying shares, which is 3.33p. These options are subject to performance conditions which are based on average growth in earnings per share achieved over the 3 years from 2006–07 to 2008–09. If average earnings per share growth is greater than 15% per annum then all of the shares shall vest. If average earnings per share growth is less than 7.5% per annum none of the shares shall vest. If average earnings per share growth is between 7.5% and 15% then the number of shares that shall vest will be determined by linear interpolation.

The following table lists the inputs to the model used for the year ended 31 March 2007:

	2007
Dividend yield	0.60%
Expected volatility	31.90%
Risk-free interest rate	4.89%
Expected life of the option	3 years
Weighted average share price	£3.62
Weighted average exercise price	£0.03

A total of 90,000 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 3.33p. 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 100 index. The performance conditions will be measured 3 years from the date of grant and there is no allowance for retesting. The contractual life of each option granted is 7 years and the options become exercisable 3 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% and above	100%
Median to 75%	Pro rata on a straight line basis
Median	33%
Below median	Nil

Notes to the financial statements – IFRS (continued)

26 Share-based payment plans (continued)

a) Long-Term Incentive Plan (LTIP) (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 the year ended 31 March 2005:

	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	£1.83
Weighted average exercise price	£0.03

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.

Pre-2004 grants

The options are normally exercisable in full or in part between the 3rd and 7th anniversaries of the date of grant. The options will lapse if not exercised by the 7th 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 3 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.

2005 grants

On 20 July 2005, a total of 255,531 options under the AVEVA Group plc Executive and Employee Share Option schemes were awarded. The performance conditions required to be achieved for the exercise of the option would be that Earnings per Share (EPS) in the financial year ending 31 March 2008 would have grown no less than 5% above the Retail Price Index per annum from that achieved in the financial year ended 31 March 2005.

The fair value of these option awards 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.

	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	£2.65
Weighted average exercise price	£2.65

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.

27 Share capital

	2007 £000	2006 £000
Authorised		
90,000,000 (2006 – 30,000,000) ordinary shares of 3.33p (2006 – 10p) each	3,000	3,000
Allotted, called-up and fully paid		
67,363,419 (2006 – 22,251,567) ordinary shares of 3.33p (2006 – 10p) each	2,245	2,225

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

	2007 Number	2007 £000	2006 Number	2006 £000
At 1 April	22,251,567	2,225	22,036,617	2,204
Exercise of share options	3,400	—	214,950	21
	22,254,967	2,225	22,251,567	2,225
Effect of 3 for 1 share split	44,509,934	—	—	—
Exercise of share options	598,518	20	—	—
At 31 March	67,363,419	2,245	22,251,567	2,225

Following the Annual General Meeting held on 14 July 2006, a 3 for 1 share reorganisation was approved by the shareholders. Adjusting for the effect of the 3 for 1 share reorganisation, the total number of ordinary shares issued pursuant to the exercise of share options during the year was 608,718 (2006 – 644,850).

Year ended 31 March 2007

Date of issue	Number of shares 2007 Number	Nominal value 2007 £	Share premium 2007 £	Market price £
Pre-share split				
16 May 2006	1,200	120	5,634	11.31
22 June 2006	2,200	220	10,055	10.59
	3,400	340	15,689	
Post-share split				
21 September 2006	3,000	100	4,695	5.19
8 November 2006	2,400	80	3,756	6.29
28 November 2006	531,768	17,725	909,508	7.29
18 December 2006	47,550	1,585	74,694	7.95
23 January 2007	3,600	120	3,990	9.08
1 March 2007	10,200	340	15,963	8.50
	598,518	19,950	1,012,606	

Year ended 31 March 2006

Date of issue	Number of shares 2006 Number	Nominal value 2006 £	Share premium 2006 £	Market price £
20 April 2005	3,600	360	15,258	2.37
17 May 2005	4,200	420	16,431	2.22
16 June 2005	49,900	4,990	250,651	2.36
15 July 2005	112,850	11,285	557,842	2.53
22 September 2005	3,200	320	9,648	3.02
20 October 2005	6,500	650	30,518	2.85
9 November 2005	6,650	665	26,906	3.21
15 December 2005	20,050	2,005	92,274	3.04
19 January 2006	1,200	120	5,634	3.37
24 February 2006	6,800	680	24,434	3.50
	214,950	21,495	1,029,596	

Notes to the financial statements – IFRS (continued)

28 Reconciliation of movements in equity

	Share capital £000	Share premium £000	Other reserves: Merger reserve £000	Other reserves: Cumulative translation adjustments £000	Other reserves: Total £000	Retained earnings £000	Total equity £000
At 1 April 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
Total recognised income and expense for the year	—	—	—	(1,872)	(1,872)	17,091	15,219
Issue of share capital	20	1,028	—	—	—	—	1,048
Share-based payments	—	—	—	—	—	177	177
Equity dividends	—	—	—	—	—	(1,992)	(1,992)
At 31 March 2007	2,245	26,381	3,921	(1,176)	2,745	33,941	65,312

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.

29 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 provides 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 32 and 33.

	2007 £000	2006 £000
Short-term employee benefits	1,084	857
Share-based payments	108	56
	1,192	913

Company balance sheet – UK GAAP
31 March 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Investments	5	27,482	27,482
Current assets			
Debtors	6	30,713	7,162
Cash at bank and in hand		507	876
		31,220	8,038
Creditors: Amounts falling due within one year	7	(4,117)	(12)
Net current assets		27,103	8,026
Net assets		54,585	35,508
Capital and reserves			
Called-up share capital	8	2,245	2,225
Share premium account	9	26,381	25,353
Merger reserve	9	3,921	3,921
Profit and loss account	9	22,038	4,009
Shareholders' funds	10	54,585	35,508

The financial statements on pages 65 to 68 were approved by the Board of Directors on 22 May 2007 and signed on its behalf by:

Nick Prest
Director

Richard Longdon
Director

22 May 2007

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.

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 substantively 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.

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 2007 of £20,021,000 (2006 – £4,056,000).

Audit fees are borne by another Group company.

The Company does not have any employees (2006 – nil). Directors' emoluments are disclosed in the Directors' remuneration report on pages 29 to 33.

4 Dividends

Declared and paid during the year	2007 £000	2006 £000
Interim 2006/7 dividend paid of 1.24p (2005/6 – 0.73p) per ordinary share	835	490
Final 2005/6 dividend paid of 1.73p (2004/5 – 1.43p) per ordinary share	1,157	952
	1,992	1,442
Proposed for approval by shareholders at the Annual General Meeting		
Final 2006/7 proposed dividend of 2.94p (2005/6 – 1.73p) per ordinary share	1,980	1,157

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 12 July 2007 and has not been included as a liability in these financial statements.

The dividend per share amounts have been restated in prior periods to reflect the 3 for 1 share reorganisation which was approved at the Annual General Meeting on 14 July 2006.

5 Fixed asset investments

	£000
Cost and net book value	
At 1 April 2006 and at 31 March 2007	27,482

Details of the Company's subsidiary undertakings are set out in note 17 in the Consolidated financial statements of the Group.

6 Debtors: amounts falling due within one year

	2007 £000	2006 £000
Amounts owed by Group undertakings	30,713	7,162

7 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Amounts owed to Group undertaking	4,113	—
Other creditors	4	12
	4,117	12

8 Called-up share capital

	2007 £000	2006 £000
Authorised		
90,000,000 (2006 – 30,000,000) ordinary shares of 3.33p (2006 – 10p) each	3,000	3,000
Allotted, called-up and fully-paid		
67,363,419 (2006 – 22,251,567) ordinary shares of 3.33p (2006 – 10p) each	2,245	2,225

	2007 Number	2007 £000	2006 Number	2006 £000
At 1 April	22,251,567	2,225	22,036,617	2,204
Exercise of share options	3,400	—	214,950	21
	22,254,967	2,225	22,251,567	2,225
Effect of 3 for 1 share split	44,509,934	—	—	—
Exercise of share options	598,518	20	—	—
At 31 March	67,363,419	2,245	22,251,567	2,225

Following the Annual General Meeting held on 14 July 2006, a 3 for 1 share reorganisation was approved by the shareholders.

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

Date of issue	Number of shares 2007 Number	Nominal value 2007 £	Share premium 2007 £	Market price £
Pre-share split				
16 May 2006	1,200	120	5,634	11.31
22 June 2006	2,200	220	10,055	10.59
	3,400	340	15,689	
Post-share split				
21 September 2006	3,000	100	4,695	5.19
8 November 2006	2,400	80	3,756	6.29
28 November 2006	531,768	17,725	909,508	7.29
18 December 2006	47,550	1,585	74,694	7.95
23 January 2007	3,600	120	3,990	9.08
1 March 2007	10,200	340	15,963	8.50
	598,518	19,950	1,012,616	

During the year the Company issued 608,718 (2006 – 644,850) ordinary shares of 3.33p each with a nominal value of £20,290 (2006 – £21,495) pursuant to the exercise of share options. The total proceeds were £1,048,000 (2006 – £1,051,000), which included a premium of £1,028,000 (2006 – £1,030,000).

Notes to the financial statements – UK GAAP (continued)

8 Called-up share capital (continued)

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	3,600	114.17
12 July 2001	155,082	159.83
1 July 2004	90,000	3.33
20 July 2005	255,531	265.33
28 June 2006	78,648	3.33
	582,861	

These options are normally exercisable in full or in part between the 3rd and 7th anniversaries of the date of grant.

9 Reserves

	Merger reserve £000	Share premium £000	Profit and loss account £000
At 1 April 2006	3,921	25,353	4,009
Share issues	—	1,028	—
Dividends paid	—	—	(1,992)
Profit for the year	—	—	20,021
At 31 March 2007	3,921	26,381	22,038

10 Reconciliation of movements in shareholders' funds

	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Profit for the financial year	20,021	4,056
Dividends	(1,992)	(1,442)
Share issues	1,048	1,051
Net addition to shareholders' funds	19,077	3,665
Opening shareholders' funds	35,508	31,843
Closing shareholders' funds	54,585	35,508

11 Related party transactions

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

Statement of Directors' responsibilities – UK GAAP

Statement of Directors' responsibilities in relation to the financial statements

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

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

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

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

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

Auditor's report – UK GAAP

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 2007 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 2007.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities 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) are 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. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements.

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

We read other information contained in the annual report and consider whether it is consistent with the audited parent Company financial statements. 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.

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 judgements 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 2007;
- 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

Ernst & Young LLP
Registered auditor
Cambridge
22 May 2007

Five year record

	IFRS			UK GAAP	
	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
Summarised Consolidated results:					
Revenues	94,906	65,930	57,163	38,113	36,008
Gross profit	67,637	44,416	38,942	25,525	22,961
Adjusted profit before tax*	28,083	13,822	9,969	6,728	6,199
Profit before tax	24,650	11,155	9,124	6,109	5,580
Income tax expense	(6,844)	(3,079)	(4,011)	(2,199)	(1,922)
Profit for the financial year	17,806	8,076	5,113	3,910	3,658
Basic earnings per share	26.59p	12.14p	7.97p	7.54p	7.15p
Adjusted earnings per share	31.71p	16.15p	9.29p	8.73p	8.36p
Total dividend per share	4.18p	2.46p	2.03p	1.93p	1.87p
Summarised Consolidated balance sheet:					
Non-current assets	35,731	38,245	39,753	8,336	8,583
Cash and cash equivalents (net)	41,287	23,503	11,211	8,713	4,930
Net current assets	37,757	20,830	11,478	13,610	10,583
Shareholders funds: all equity	65,312	50,860	41,369	21,570	18,582

* Adjusted profit before tax is stated before amortisation of intangibles, share-based payments, adjustment to goodwill, restructuring costs and past service credit on the defined benefit pension scheme in the relevant years.

The earnings and dividend per share amounts in prior periods have been restated to reflect the 3 for 1 share reorganisation which was approved at the Annual General Meeting on 14 July 2006.

Company information and advisers

Directors	Nick Prest CBE Chairman David Mann Non-executive Director and Senior Independent Director Colin Garrett Non-executive Director Richard Longdon Chief Executive Paul Taylor Finance Director
Secretary	Paul Taylor
Registered office	High Cross Madingley Road Cambridge CB3 0HB
Registered number	2937296
Auditors	Ernst & Young LLP Compass House 80 Newmarket Road Cambridge CB5 8DZ
Bankers	Barclays Bank plc 15 Bene't Street Cambridge CB2 3PZ
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

Group directory

Abu Dhabi, UAE

Busan, Korea

Calgary, Canada

Cambridge, UK

Chesterfield, UK

Dubai, UAE

Frankfurt, Germany

Genova, Italy

Guangzhou, China

Hamburg, Germany

Hong Kong

Houston, USA

Kuala Lumpur, Malaysia

Lysaker, Norway

Madrid, Spain

Malmö, Sweden

Mexico City, Mexico

Moscow, Russia

Mumbai, India

Paris, France

Perth, Australia

Al Khobar, Saudi Arabia

Seoul, Korea

Shanghai, China

Singapore

Solent, UK

St Petersburg, Russia

Stavanger, Norway

Wilmington, USA

Yokohama, Japan

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