

Notes to the financial statements

1 Segmental analysis

The Group's primary segment reporting is by business sector with geographical reporting being the secondary format. The business sectors consist of Banking, Healthcare, Sesame and Group.

Revenue and operating profit (loss) by business

all figures in £ millions	Banking	Healthcare	Sesame	Group	2006 Total
Revenue from continuing operations	266.6	316.7	370.0	-	953.3
Operating profit from continuing operations	22.3	45.4	(1.9)	(10.0)	55.8
Net finance costs					(16.3)
Profit before taxation					39.5
Taxation					(13.5)
Profit for the year from continuing operations					26.0
Profit for the year from discontinued operations					187.1
Profit for the year					213.1

all figures in £ millions	Banking	Healthcare	Sesame	Group	2005 Total
Revenue from continuing operations	245.0	290.5	319.2	-	854.7
Operating profit from continuing operations	40.9	42.6	(5.3)	(6.4)	71.8
Net finance costs					(10.5)
Profit from taxation					61.3
Taxation					(14.7)
Profit for the year from continuing operations					46.6
Profit for the year from discontinued operations					15.8
Profit for the year					62.4

All revenue is derived from external customers.

Included within Banking operating profit are exceptional costs of £13.9m (2005: £nil), gains on embedded derivatives of £0.3m (2005: £nil) and amortisation of acquired intangibles of £1.9m (2005: £0.3m). Included within Healthcare are exceptional costs of £2.0m (2005: £nil) and amortisation of acquired intangibles of £0.5m (2005: £nil). Included in Sesame are exceptional costs of £10.5m (2005: £11.6m). Included within Group are exceptional costs of £1.4m (2005: £nil).

Included within Group expenses is income of £nil (2005: £2.7m) arising on the disposal of the final one third of the warrants held in relation to WebMD common stock.

1 Segmental analysis (continued)

Other segment information

all figures in € millions	Banking	Healthcare	Sesame	Group	Continuing operations	Discontinued operations	2006 Total
Net assets (liabilities)							
Assets	146.2	236.5	116.9	33.1	532.7	–	532.7
Liabilities	(147.1)	(89.6)	(128.4)	(65.9)	(431.0)	–	(431.0)
Net Group balances	(25.9)	(409.2)	(227.7)	662.8	–	–	–
Net (debt) funds	34.2	6.8	96.4	(232.1)	(94.7)	–	(94.7)
	7.4	(255.5)	(142.8)	397.9	7.0	–	7.0
Capital investment							
Goodwill and acquired intangibles	25.1	28.9	–	–	54.0	–	54.0
Developed software	10.4	4.0	–	–	14.4	–	14.4
Other	5.0	2.8	0.3	0.3	8.4	0.2	8.6
	40.5	35.7	0.3	0.3	76.8	0.2	77.0
Depreciation and amortisation							
Acquired intangibles	1.9	0.5	–	–	2.4	–	2.4
Developed software	3.0	2.0	–	–	5.0	–	5.0
Other	5.4	3.7	0.9	0.5	10.5	0.2	10.7
	10.3	6.2	0.9	0.5	17.9	0.2	18.1
Share-based payment charge	3.7	3.8	0.3	1.7	9.5	0.3	9.8
Employees (average)	2,537	2,771	786	54	6,148	308	6,456

all figures in € millions	Banking	Healthcare	Sesame	Group	Continuing operations	Discontinued operations	2005 Total
Net assets (liabilities)							
Assets	111.6	213.2	109.9	32.8	467.5	3.9	471.4
Liabilities	(114.6)	(79.5)	(113.7)	(95.8)	(403.6)	(8.4)	(412.0)
Net Group balances	1.5	(423.8)	(235.6)	629.5	(28.4)	28.4	–
Net (debt) funds	24.7	10.0	99.5	(364.2)	(230.0)	11.2	(218.8)
	23.2	(280.1)	(139.9)	202.3	(194.5)	35.1	(159.4)
Capital investment							
Goodwill and acquired intangibles	4.8	–	–	–	4.8	–	4.8
Developed software	5.0	6.2	–	–	11.2	–	11.2
Other	5.8	2.6	1.2	0.6	10.2	0.3	10.5
	15.6	8.8	1.2	0.6	26.2	0.3	26.5
Depreciation and amortisation							
Acquired intangibles	0.3	–	–	–	0.3	–	0.3
Developed software	2.4	1.2	–	–	3.6	–	3.6
Other	5.2	3.1	1.1	0.4	9.8	0.3	10.1
	7.9	4.3	1.1	0.4	13.7	0.3	14.0
Share-based payment charge	3.7	4.7	0.3	1.5	10.2	0.2	10.4
Employees (average)	2,521	2,740	884	56	6,201	306	6,507

Capital investment comprises expenditure on goodwill, other intangible assets and property, plant and equipment.

Segment assets consist primarily of goodwill, other intangible assets, property, plant and equipment, and trade and other receivables and exclude cash balances and intercompany receivables. Included within Group segment assets are amounts relating to corporation tax recoverable and deferred tax assets. Segment liabilities consist primarily of trade and other payables and provisions and exclude bank overdrafts, loans, loan notes, finance leases and intercompany payables. Included within Group segment liabilities are amounts relating to corporation tax payable, deferred tax liabilities and retirement benefit obligations.

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1 Segmental analysis (continued)

all figures in £ millions – continuing operations	United Kingdom	Rest of Europe	Asia Pacific	Americas	Other	2006 Total
Revenue by destination	415.1	107.2	34.7	364.6	31.7	953.3
Assets by location of operations	216.9	24.2	7.1	273.0	11.5	532.7
Capital investment by location of operations	11.2	25.0	0.3	39.4	0.9	76.8
Employees (average) by location of operations	1,441	417	495	2,905	890	6,148

all figures in £ millions – continuing operations	United Kingdom	Rest of Europe	Asia Pacific	Americas	Other	2005 Total
Revenue by destination	356.3	93.8	26.9	345.4	32.3	854.7
Assets by location of operations	183.2	24.8	4.7	246.9	7.9	467.5
Capital investment by location of operations	12.5	0.8	0.7	11.1	1.1	26.2
Employees (average) by location of operations	1,519	427	537	3,025	693	6,201

Excluded from the above analysis are the following items relating to discontinued operations: revenue by destination United Kingdom £30.2m (2005: £32.3m), Rest of Europe £1.1m (2005: £1.4m); assets by location of operation United Kingdom £nil (2005: £3.9m); capital investment by location of operation United Kingdom £0.2m (2005: £0.3m) and employees by location of operation United Kingdom 307 (2005: 303), Rest of Europe 1 (2005: 3).

all figures in £ millions – continuing operations	Banking	Healthcare	Sesame	2006 Total
Initial licence fees	83.6	57.1	3.3	144.0
Maintenance	121.6	123.2	1.4	246.2
Transaction processing	11.6	70.4	364.9	446.9
Professional services	49.6	34.2	0.4	84.2
Hardware	0.2	31.8	–	32.0
	266.6	316.7	370.0	953.3

all figures in £ millions – continuing operations	Banking	Healthcare	Sesame	2005 Total
Initial licence fees	72.1	56.6	–	128.7
Maintenance	115.5	108.6	2.8	226.9
Transaction processing	9.3	65.1	310.0	384.4
Professional services	47.8	29.6	6.4	83.8
Hardware	0.3	30.6	–	30.9
	245.0	290.5	319.2	854.7

2 Exceptional items

all figures in £ millions	2006	2005
Profit on disposal of associate	8.0	–
Loss on disposal of businesses	(2.8)	(2.7)
Estimated costs and redress payments associated with regulatory reviews and endowment complaints	(15.7)	(8.9)
Restructuring programme	(13.9)	–
Acquisition integration costs	(2.0)	–
Discontinued disposal costs	(1.4)	–
Exceptional items within continuing operations	(27.8)	(11.6)
Profit on disposal of operations (note 4)	171.9	–
Total exceptional items before taxation	144.1	(11.6)
Taxation on exceptional items within continuing operations	1.6	–
Total exceptional items after taxation	145.7	(11.6)

2 Exceptional items (continued)

Profit on disposal of associate

The profit on disposal of £8.0m in the current period relates to the disposal of the 29% investment in First Software (UK) Limited. There is no tax impact in respect of this item recognised within the taxation charge. There was a cash inflow, net of expenses, of £8.6m (2005: £nil) in respect of this item in the year.

Loss on disposal of businesses

The loss on disposal of £2.8m (2005: £2.7m) relates to the disposal of the 60% holding in AssureWeb Limited on 7 July 2005, with the charge being made in 2005 in respect of the impairment of assets on the impending sale of this business. There is no tax impact in respect of this item recognised within the taxation charge. There was a cash inflow, net of expenses, of £2.7m (2005: £nil) in respect of this item in the year.

Estimated costs and redress payments associated with regulatory reviews and endowment complaints

The exceptional charge of £15.7m (2005: £8.9m) relates to the estimated costs and redress payments in respect of endowment complaints that have been received during the year and are anticipated in the future, arising from a regulatory review of structured capital at risk products and from a former network member review. There is no tax impact in respect of this item recognised within the taxation charge. There was a cash outflow of £13.5m (2005: £0.2m) in respect of these items in the year. These are described more fully in note 26.

Restructuring programme

The exceptional charge of £13.9m (2005: £nil) relates to restructuring within Banking. These costs consist principally of redundancy costs, onerous contract costs and the write off of developed software. A tax credit of £0.8m (2005: £nil) has been recognised in respect of this item, within the taxation charge. There was a cash outflow of £3.8m (2005: £nil) in respect of this item in the year.

Acquisition integration costs

The exceptional charge of £2.0m (2005: £nil) relates to the costs associated with the integration of the acquisitions made in the second half. These costs consist principally of redundancy and onerous contract costs. A tax credit of £0.8m (2005: £nil) has been recognised in respect of this item within the taxation charge. There was a cash outflow of £0.5m (2005: £nil) in respect of this item in the year.

Discontinued disposal costs

The exceptional charge of £1.4m (2005: £nil) relates to costs incurred in the potential sale process of Sesame which was terminated during the year. There is no tax impact in respect of this item recognised within the taxation charge. There was a cash outflow of £1.4m (2005: £nil) in respect of this item in the year.

3 Operating costs

all figures in £ millions – continuing operations	2006	2005
Cost of sales	665.7	580.5
Occupancy costs	40.9	39.1
Sales and marketing costs	69.4	62.8
Administrative expenditure	59.6	65.4
Other operating charges	34.1	23.5
Exceptional items (note 2)	27.8	11.6
	897.5	782.9

Included within operating costs from continuing operations are the following items:

all figures in £ millions – continuing operations	2006	2005
Research and development expenditure	89.7	86.8
Capitalisation of developed software	(14.4)	(11.2)
	75.3	75.6
Amortisation of developed software	5.0	3.6
Amortisation of other intangible assets	4.1	1.7
Depreciation of property, plant and equipment	8.8	8.4
Impairment of assets	–	2.7
Loss (profit) on disposal of property, plant and equipment	0.3	(0.4)
Operating lease costs – land and buildings	16.3	15.5
– plant and machinery	1.2	1.2
Remuneration of auditors for Group audit services	1.5	1.0
Other fees paid to auditors	1.9	0.9

Other fees paid to auditors principally includes work such as international corporation and sales tax advice of £0.6m (2005: £0.7m), the transition to IFRS of £0.5m (2005: £0.1m) and other transactions advisory related work of £0.8m (2005: £0.1m).

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4 Discontinued operations

all figures in £ millions	2006	2005
Revenue	31.3	33.7
Operating costs	(16.1)	(17.9)
Profit for the year	15.2	15.8
Profit on disposal of operations	171.9	–
Profit for the year from discontinued operations	187.1	15.8

On 5 May 2006, the Group sold the General Insurance business. Further information is provided in note 17.

Cash flows from discontinued operations

all figures in £ millions	2006	2005
Net cash flows from operating activities	13.8	16.1
Net cash flows from investing activities	169.5	0.3
Net cash flows from financing activities	–	–
	183.3	16.4

5 Share-based payments

During the period ended 31 May 2006, the following material share-based payment arrangements existed:

	Options granted '000	2006 Fair value per share £	Options granted '000	2005 Fair value per share £	Contractual life Years
Long Term Incentive Plan	832	1.45	1,162	1.26 ⁽ⁱ⁾	8
Misys 1998 Unapproved Share Option Plan (Type I)	832	1.10	1,062	0.93	10
Misys 2000 Share Option Plan (Type III)	–	–	9,249	0.93	7 or 10
Misys Share Award Plan	2,441	2.14 ⁽ⁱ⁾	–	–	10
Annual Award Plan	–	–	1,691	1.62	7
Misys Senior Executive Bonus Plan	888	2.07	–	–	5
Sharesave (UK)	338	0.86	1,000	0.96	3
Sharesave (non UK)	119	0.86	245	1.22	3

(i) Where several grants were made in the year, the weighted average fair value has been provided.

Details of the Long Term Incentive Plan ('LTIP'), the Misys Senior Executive Bonus Plan ('MSEBP') and the Misys 1998 Unapproved Share Option Plan (Type I) are shown in the Directors' remuneration report.

In the year ended 31 May 2005, grants of options under the Misys 2000 Share Option Plan (Type III) were awarded to senior managers throughout the Group at the market value ruling on the date of grant. In the year ended 31 May 2006, grants under the Misys Share Award Plan ('MSAP') were made to senior managers at nil cost.

In the year ended 31 May 2005, awards under the Annual Award Plan ('AAP') were made to Directors and certain senior managers. The nil cost award comprised three elements: an Annual Award of shares which related to the executives' bonus payment. These shares were beneficially owned at grant but were placed in trust for two years. Deferred and Matching Awards of shares were granted at nil cost and vested after two years.

The Sharesave Schemes provide for a yearly award of options at a discount to the market price and are eligible to all Group employees. In the tables below similar share-based payment arrangements have been aggregated as follows:

- Share option schemes – nil cost: includes LTIP, MSAP, AAP and MSEBP.
- Share option schemes – market value: includes Type I and Type III.
- Savings-related share option schemes: includes the Sharesave (UK) and Sharesave (non UK) schemes.

Share-based payment charges

Share-based payment charges are calculated by spreading the fair value of an option over the vesting period having taken into account any performance conditions.

The vesting period is typically three years from date of grant or the beginning of the bonus year in respect of grants under the AAP and the MSEBP.

5 Share-based payments (continued)

All options are valued using the Black-Scholes option pricing model except grants under the LTIP which use the Monte Carlo option pricing model.

The following assumptions have been used in the option pricing models:

	2006	2005	2004
Risk-free interest rate %	4.1 – 4.2	4.9 – 5.3	3.5 – 4.5
Dividend yield %	3.3	2.6	2.9
Volatility⁽ⁱ⁾ of Misys plc ordinary shares %			
Share option schemes – nil cost	47	82	70
Share option schemes – market value	61	66 – 67	54 – 66
Savings-related share option schemes	47	82	70
Expected lives (years) of options granted			
Share option schemes – nil cost (excluding LTIP)	3	3	3
Share option schemes – market value	6.5	4.5 – 6.5	4.5 – 6.5
Savings-related share option schemes	3	3	3

The following additional assumptions have been used for the Monte Carlo option pricing model:

	2006	2005	2004
Volatility ⁽ⁱ⁾ of the top 30 Techmark companies %	44	51	54
Correlation coefficient ⁽ⁱⁱⁱ⁾	0.16	0.19	0.18
Expected lives (years) of options granted under LTIP	3	4	4

(i) Expected volatility was calculated using the share price history for the period equivalent to the expected life.

(iii) The share price correlation between the top 30 Techmark companies was determined by the historical correlation of the share price movements over the same period as the volatility.

Both models incorporate the share price at the date of grant. The weighted average share price for options granted during the year was £2.35 (2005: £1.86; 2004: £2.52).

Options outstanding

At 31 May 2006, options and awards outstanding, and a reconciliation of movements between balance sheet dates is shown in respect of the Company's ordinary shares of 1p each under the following schemes:

	Share option schemes – nil cost		Share option schemes – market value			Savings-related share option schemes		
	Number '000	Weighted fair value £	Number '000	Weighted exercise price £	Weighted fair value £	Number '000	Weighted exercise price £	Weighted fair value £
At 1 June 2003	5,879		30,216	3.26		4,976	2.32	
Options granted	2,347	2.14	17,576	2.50	1.16	2,093	2.14	1.27
Options exercised	(1,833)		(1,261)	1.55		(109)	1.55	
Options lapsed or expired	(726)		(4,956)	3.71		(1,361)	2.70	
At 31 May 2004	5,667		41,575	2.94		5,599	2.18	
Options granted	2,853	1.45	10,311	1.90	0.93	1,245	1.48	1.01
Options exercised	(1,439)		(759)	1.64		(1,808)	2.10	
Options lapsed or expired	(1,728)		(9,929)	2.91		(1,527)	2.33	
At 31 May 2005	5,353		41,198	2.71		3,509	1.90	
Options granted	4,161	1.99	832	2.35	1.10	457	1.89	0.86
Options exercised	(1,112)		(2,261)	1.91		(460)	1.71	
Options lapsed or expired	(1,706)		(7,322)	2.35		(672)	2.39	
At 31 May 2006	6,696		32,447	2.84		2,834	1.82	
Range of exercise prices		–		£1.56 – £10.55			£1.40 – £8.11	
Weighted average remaining life		7.1 years		4.4 years			1.1 years	

The average share price during the year ended 31 May 2006 was £2.22.

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5 Share-based payments (continued)

The outstanding nil cost share options and awards at 31 May 2006 include 214,129 (2005: 505,777) shares held by the Trustee to the sole benefit of the participants.

Weighted average exercise information is excluded for nil cost schemes.

Options outstanding at 31 May 2006 are further analysed as follows:

Grant Year ended 31 May	Share option schemes – nil cost		Share option schemes – market value			Savings-related share option schemes		
	Number '000	Latest exercise date	Number '000	Weighted exercise price £	Latest exercise date	Number '000	Weighted exercise price £	Latest exercise date
1997	–	–	328	2.26	01/04/07	–	–	–
1998	–	–	329	3.40	11/02/08	–	–	–
1999	–	–	692	4.35	14/04/09	–	–	–
2000	–	–	672	5.42	16/02/10	25	4.50	01/10/06
2001	–	–	2,470	6.57	08/10/10	4	5.35	01/10/07
2002	61	08/10/08	4,781	3.36	22/11/11	427	2.34	01/10/08
2003	58	24/07/09	3,155	1.99	02/02/13	320	1.54	01/05/08
2004	986	11/11/11	11,176	2.49	11/11/13	607	1.98	01/05/09
2005	1,946	28/07/12	8,106	1.90	08/05/15	1,037	1.49	01/07/08
2006	3,645	09/02/16	738	2.35	27/07/15	414	1.90	01/07/09
At 31 May 2006	6,696		32,447	2.84		2,834	1.82	

Options exercisable

At the balance sheet date the following options and awards had vested:

At 31 May	Share option schemes – nil cost		Share option schemes – market value		Savings-related share option schemes	
	Number '000		Number '000	Weighted exercise price £	Number '000	Weighted exercise price £
2004	446		17,016	3.55	150	4.63
2005	257		21,401	3.31	160	4.58
2006	267		18,097	3.31	107	2.50

6 Directors and employees

Directors' remuneration

Details of the Directors' remuneration are given in the Directors' remuneration report.

Employee costs

all figures in £ millions	2006	2005
Wages and salaries	261.5	248.5
Social security costs	23.6	22.3
Pension costs	12.5	12.9
	297.6	283.7

Included in the above are total employee costs of £10.3m (2005: £10.0m) in respect of discontinued operations.

7 Finance costs

all figures in £ millions	2006	2005
Bank loans and overdraft interest payable	(19.3)	(6.9)
Interest on listed bonds	-	(6.2)
Amortisation of issue costs on financing	(0.5)	(0.1)
Other interest payable	(0.1)	(0.2)
Expected return on pension scheme assets (note 29)	2.1	2.0
Interest on pension scheme liabilities (note 29)	(1.9)	(1.9)
Unwinding of discount on provisions	(1.7)	(1.2)
Finance costs	(21.4)	(14.5)
Bank interest receivable	4.2	3.8
Unwinding of discount on receivables	0.7	0.2
Exchange gains or losses on debt previously hedging goodwill written off to reserves (note 37)	0.2	-
Finance income	5.1	4.0
Net finance costs	(16.3)	(10.5)

8 Taxation

all figures in £ millions	2006	2005
UK corporation tax at 30%	1.9	3.1
UK prior year items	-	(2.4)
Overseas taxation	10.0	11.7
Overseas prior year items	(1.4)	(0.2)
Irrecoverable withholding taxes	0.3	1.8
Current taxation (including tax relating to exceptional items)	10.8	14.0
Deferred taxation (note 27)	2.7	0.7
	13.5	14.7

Included within current taxation is a £1.6m credit (2005: £nil) in respect of tax on exceptional items.

The taxation charge for the current and prior year is lower than the standard rate of UK corporation tax based on profit before taxation for the following reasons:

all figures in £ millions	2006	2005
Profit on ordinary activities before taxation	226.6	77.1
Tax on profit on ordinary activities at the standard rate of UK tax of 30%	68.0	23.1
Effects of:		
Permanent differences (primarily exemption on disposal of investments)	(57.8)	(2.5)
Profits arising overseas which are subject to rates of tax other than the UK standard rate	(8.4)	(13.8)
Effects of temporary differences on which deferred tax is not recognised	13.1	9.3
Adjustments to UK taxation charge in respect of prior periods	-	(2.4)
UK and overseas research and development tax credits	(0.3)	(0.6)
Adjustments to overseas taxation charge in respect of prior periods	(1.4)	(0.2)
Irrecoverable withholding tax	0.3	1.8
	13.5	14.7

As a UK reporting entity, Misys plc is UK tax resident and therefore the applicable rate for the reconciliation is considered to be the standard rate of UK tax of 30%.

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9 Equity dividends

all figures in £ millions	2006	2005
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the year ended 31 May 2006 of 2.69p per share	13.0	–
Final dividend for the year ended 31 May 2005 of 4.28p per share	20.7	–
Interim dividend for the year ended 31 May 2005 of 2.56p per share	–	12.8
Final dividend for the year ended 31 May 2004 of 4.08p per share	–	20.7
	33.7	33.5
Proposed final dividend for the year ended 31 May 2006 of 4.49p per share	21.4	

The proposed final dividend of 4.49p (2005: 4.28p) together with the interim dividend of 2.69p (2005: 2.56p) totals 7.18p (2005: 6.84p).

Dividends amounting to £1.6m (2005: £1.6m) in respect of the Company's shares held by employee share trusts have been deducted in arriving at the amounts recognised and proposed as distributions to equity holders.

10 Earnings per share

Earnings per share ('EPS') have been calculated in accordance with IAS 33 'Earnings Per Share' by dividing profit attributable to shareholders by the weighted average number of shares in issue during the period.

Adjusted basic and adjusted diluted EPS are presented to provide more comparable and representative information. Accordingly, the adjusted basic and adjusted diluted EPS figures exclude exceptional items, gains and losses on embedded derivatives, amortisation of acquired intangibles and exchange gains or losses on debt previously hedging goodwill written off to reserves. Where applicable, all items below are shown net of taxation.

all figures in £ millions	2006	2005
Profit attributable to shareholders	213.1	62.0
Exceptional items after taxation (note 2)	(145.7)	11.6
Gains and losses on embedded derivatives after taxation	(0.2)	–
Amortisation of acquired intangibles	2.4	0.3
Exchange gains or losses on debt previously hedging goodwill written off to reserves	(0.2)	–
Adjusted profit attributable to shareholders	69.4	73.9
Profit for the year from discontinued operations	187.1	15.8
	pence	pence
Basic earnings per share	44.0	12.4
Diluted earnings per share	43.6	12.3
Adjusted basic earnings per share	14.3	14.8
Adjusted diluted earnings per share	14.2	14.7
Basic earnings per share from discontinued operations	38.7	3.2
Diluted earnings per share from discontinued operations	38.3	3.1

The weighted average numbers of basic and diluted shares in issue during the period were 484.1m and 488.4m respectively (2005: 499.5m and 505.8m). Dilution arises principally as a result of outstanding share options.

11 Net interest paid

all figures in £ millions	2006	2005
Interest received	4.2	4.0
Bank loans and overdraft interest paid	(19.6)	(4.5)
Interest on listed bonds	–	(7.8)
Facility arrangement fees	–	(1.3)
Other interest paid	–	(0.2)
Net cash flow from interest paid	(15.4)	(9.8)

12 Acquisitions and disposals of businesses

all figures in € millions	2006	2005
Cash consideration paid in respect of current year acquisitions (including expenses)	(55.3)	(4.9)
Cash consideration paid in respect of prior years' acquisitions	(0.2)	(5.0)
Cash consideration received in respect of current year disposals (net of expenses)	191.3	-
Cash consideration received in respect of prior year disposals	-	0.2
Cash at bank and in hand acquired	4.2	1.0
Cash at bank and in hand disposed of	(21.0)	-
Net cash flow from acquisitions and disposals	119.0	(8.7)

13 Other capital expenditure and financial investment

all figures in € millions	2006	2005
Purchase of property, plant and equipment	(5.5)	(8.1)
Purchase of third party software	(2.0)	(1.3)
Purchase of investments	(0.8)	(0.6)
Sale of property, plant and equipment	-	1.0
Net cash flow from other capital expenditure and financial investment	(8.3)	(9.0)

14 Financing activities

all figures in € millions	2006	2005
Dividends paid	(33.7)	(33.5)
(Decrease) increase in borrowings (note 15)	(111.6)	23.2
Capital element of finance leases	(1.3)	(1.0)
Payments for the purchase of own shares	(25.3)	(52.9)
Share options exercised	5.2	3.7
Net cash flow from financing activities	(166.7)	(60.5)

15 Movement in borrowings

all figures in € millions	2006	2005
Reduction in funds placed on interest bearing deposit	-	45.0
Receipt of funds in respect of cross currency swaps	-	43.9
Repayment of listed bonds	-	(318.7)
Net movements on listed bonds	-	(229.8)
Repayment of bank loans	(391.0)	(49.7)
Receipt of bank loans	280.6	304.1
Repayment of loan notes	(1.1)	(1.4)
Repayment of other loans	(0.1)	-
(Decrease) increase in borrowings	(111.6)	23.2

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16 Analysis of net debt

all figures in £ millions	At 1 June 2005	Cash flow	Acquisitions (excluding cash)	Other non cash changes	Differences on exchange	At 31 May 2006
Cash	101.6	15.4	–	–	0.2	117.2
Bank overdraft	–	(9.5)	–	–	–	(9.5)
	101.6	5.9	–	–	0.2	107.7
Bank loan	(316.2)	110.4	–	(0.3)	7.1	(199.0)
Other loans	–	0.1	(0.1)	–	–	–
Loan notes	(2.1)	1.1	–	(0.2)	–	(1.2)
Finance leases	(2.1)	1.3	(0.3)	(1.1)	–	(2.2)
Net debt	(218.8)	118.8	(0.4)	(1.6)	7.3	(94.7)

Within the regulated business of Sesame are cash balances of £71.7m (2005: £59.5m) subject to certain restrictions over their use. In addition to these amounts, there are cash balances of £2.3m (2005: £1.2m) not available for the general use of the Group.

17 Goodwill

all figures in £ millions	2006	2005
Cost and net book value at 1 June	216.3	212.6
Differences on exchange	(5.7)	0.7
Additions through business combinations completed in the current year	32.9	–
Additions through business combinations completed in the prior year	0.4	3.0
Disposals	(2.8)	–
Cost and net book value at 31 May	241.1	216.3

Significant cash generating units

The goodwill held in the Hospital Systems and Sesame cash generating units ('CGUs'), being £141.7m and £35.7m respectively, are considered significant in comparison to the total carrying amounts of goodwill assets at 31 May 2006.

At 31 May 2006 impairment reviews of the carrying value of these assets were conducted. The value in use of each of these assets was determined from the present value of the future cash flows. Discount rates of 11.5% and 14% respectively were used.

The following key assumptions were used in the discounted cash flow projections for the Hospital Systems CGU:

- a longer-term sustainable growth rate of 3%, used to determine an appropriate terminal value multiple;
- average near-term nominal growth for the major products within the CGU of 8%; and
- average operating margins of 15%.

The growth rates and margins used to estimate future performance are based on past performance and the experience of growth rates and margins achievable in the US Healthcare markets as a guide. The assumptions used in estimating the future performance of the Hospital Systems CGU are consistent with past performance.

The following key assumptions were used in the discounted cash flow projections for the Sesame CGU:

- a longer-term sustainable growth rate of 2.5%, used to determine an appropriate terminal value multiple;
- average near-term nominal growth for the major products within the CGU of 4%; and
- average operating margins on net revenue of 9%.

The growth rates and margins used to estimate future performance are based on past performance and the experience of growth rates and margins achievable in the UK mortgage and investment markets as a guide. The assumptions used in estimating the future performance of the Sesame CGU are consistent with past performance as well as the expectations arising from the change of the business model over time, brought about by the launch of Sesame Select.

The projections of both covered a period of 10 years as it is considered that this is a suitable time period over which to review and consider annual performance, before applying a fixed terminal value multiple to the final year cash flows of the detailed projection.

The growth rates used to estimate future performance beyond the periods covered by the annual and strategic planning processes do not exceed the long-term average growth rates for similar products.

Sensitivity analysis around the base case assumptions have been performed and it has been concluded that no reasonably possible changes in key assumptions would cause the carrying amount of the Hospital Systems and Sesame CGUs to exceed their recoverable amounts.

17 Goodwill (continued)

Current year acquisitions

Within Banking, the Group completed three acquisitions, which created goodwill of £12.6m. Almonde Inc was acquired on 10 July 2005 for a cash consideration, including acquisition expenses, of £11.0m. INTESIO GmbH was acquired on 10 February 2006 for a cash consideration, including acquisition expenses, of £7.6m. NEOMAlagic SARL was acquired on 24 March 2006 for a cash consideration, including acquisition expenses, of £10.6m. In each case 100% of the share capital was acquired. Prior to acquisition, Misys acted as an agent for Almonde and there are no incremental revenues; and the operating loss since acquisition was £0.4m. The remaining two acquisitions contributed £1.5m revenue and £0.6m operating profit in the period since acquisition.

Within Healthcare, the Group completed two acquisitions, which created goodwill of £20.3m. Payerpath Inc was acquired on 30 January 2006 for a cash consideration, including acquisition expenses, of £28.0m. Other assets within the physicians market were acquired on 1 March 2006 for a cash consideration, including acquisition expenses, of £2.5m. In each case 100% of the share capital was acquired. In the period since acquisition, they have contributed revenue of £2.3m and operating losses of £2.8m, of which £2.0m has been treated as an exceptional item.

An analysis of the aggregate net assets acquired for all acquisitions in the year is shown below since no single acquisition is material to the Group.

all figures in £ millions	Book value	Fair value adjustment	Fair value
Intangible assets	0.2	20.6	20.8
Property, plant and equipment	0.9	–	0.9
Deferred tax assets	–	4.9	4.9
Cash	4.2	–	4.2
Other assets	3.3	(0.2)	3.1
Other liabilities	(6.4)	(0.7)	(7.1)
Net assets acquired	2.2	24.6	26.8
Goodwill			32.9
Total consideration			59.7

Total consideration includes directly attributable expenses of £1.8m and deferred consideration of £4.4m. The fair value adjustments contain provisional amounts which will be finalised within 12 months of acquisition.

Prior year acquisitions

Additions to goodwill in the year include further contingent consideration of £0.4m in respect of IDOM Consulting (UK) Limited.

Current year disposals

On 5 May 2006 the Group disposed of its shareholding in a number of companies comprising the General Insurance business for a total cash consideration of £183.0m, realising a profit on disposal £171.9m. This business has been classified as a discontinued operation as required under IFRS 5.

On 7 July 2005 the Group disposed of its 60% shareholding in AssureWeb Limited for a total cash consideration of £3.0m, realising a loss on disposal of £2.8m. This has been disclosed as an exceptional item.

On 5 August 2005 the Group disposed of its 29% investment in First Software (UK) Limited for a total cash consideration of £8.6m, realising a profit on disposal of £8.0m. This has been disclosed as an exceptional item.

all figures in £ millions	General Insurance	AssureWeb	First Software	Total
Proceeds on disposal, net of expenses	180.0	2.7	8.6	191.3
Cash at bank and in hand disposed of	(10.7)	(10.3)	–	(21.0)
Share of other net liabilities (assets) disposed of	2.6	7.2	(0.2)	9.6
Goodwill written off	–	(2.4)	(0.4)	(2.8)
Profit (loss) on disposal	171.9	(2.8)	8.0	177.1

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18 Other intangible assets

all figures in £ millions	Complete technology	Customer relationships	Trade names and brands	Total acquired intangibles	Developed software	Third party software	Total
Cost							
At 1 June 2005	1.8	–	–	1.8	24.6	10.8	37.2
Differences on exchange	(0.2)	(0.2)	–	(0.4)	(0.7)	(0.2)	(1.3)
On acquisition of subsidiary undertakings	16.1	4.2	0.4	20.7	–	0.1	20.8
On disposal of subsidiary undertakings	–	–	–	–	–	(0.1)	(0.1)
Additions	–	–	–	–	14.4	2.0	16.4
Disposals	–	–	–	–	(5.9)	(0.5)	(6.4)
At 31 May 2006	17.7	4.0	0.4	22.1	32.4	12.1	66.6
Amortisation and impairment							
At 1 June 2005	(0.3)	–	–	(0.3)	(6.2)	(8.3)	(14.8)
Differences on exchange	–	–	–	–	0.2	0.2	0.4
Charge for the year	(2.2)	(0.2)	–	(2.4)	(5.0)	(1.7)	(9.1)
On disposal of subsidiary undertakings	–	–	–	–	–	0.1	0.1
Disposals	–	–	–	–	3.3	0.5	3.8
At 31 May 2006	(2.5)	(0.2)	–	(2.7)	(7.7)	(9.2)	(19.6)
Net book value							
At 31 May 2006	15.2	3.8	0.4	19.4	24.7	2.9	47.0

all figures in £ millions	Complete technology	Customer relationships	Trade names and brands	Total acquired intangibles	Developed software	Third party software	Total
Cost							
At 1 June 2004	–	–	–	–	13.3	11.9	25.2
Differences on exchange	–	–	–	–	0.1	0.1	0.2
On acquisition of subsidiary undertakings	1.8	–	–	1.8	–	–	1.8
Additions	–	–	–	–	11.2	1.3	12.5
Disposals	–	–	–	–	–	(2.5)	(2.5)
At 31 May 2005	1.8	–	–	1.8	24.6	10.8	37.2
Amortisation and impairment							
At 1 June 2004	–	–	–	–	(2.6)	(9.2)	(11.8)
Differences on exchange	–	–	–	–	–	(0.1)	(0.1)
Charge for the year	(0.3)	–	–	(0.3)	(3.6)	(1.4)	(5.3)
Disposals	–	–	–	–	–	2.4	2.4
At 31 May 2005	(0.3)	–	–	(0.3)	(6.2)	(8.3)	(14.8)
Net book value							
At 31 May 2005	1.5	–	–	1.5	18.4	2.5	22.4

19 Property, plant and equipment

all figures in £ millions	Freehold properties	Leasehold properties	Computer and other equipment	Total
Cost				
At 1 June 2005	4.7	7.0	52.7	64.4
Differences on exchange	–	(0.2)	(0.8)	(1.0)
On acquisition of subsidiary undertakings	–	–	0.9	0.9
On disposal of subsidiary undertakings	(1.6)	–	(3.7)	(5.3)
Additions	–	1.3	5.3	6.6
Disposals	–	(0.2)	(2.4)	(2.6)
At 31 May 2006	3.1	7.9	52.0	63.0
Depreciation				
At 1 June 2005	(0.6)	(3.8)	(37.6)	(42.0)
Differences on exchange	–	0.2	0.7	0.9
Charge for the year	(0.1)	(1.0)	(7.9)	(9.0)
On disposal of subsidiary undertakings	–	–	2.8	2.8
Disposals	–	0.2	2.1	2.3
At 31 May 2006	(0.7)	(4.4)	(39.9)	(45.0)
Net book value				
At 31 May 2006	2.4	3.5	12.1	18.0

all figures in £ millions	Freehold properties	Leasehold properties	Computer and other equipment	Total
Cost				
At 1 June 2004	5.1	5.3	55.9	66.3
Differences on exchange	–	0.1	0.4	0.5
On acquisition of subsidiary undertakings	–	–	0.1	0.1
Additions	–	1.7	7.5	9.2
Disposals	(0.4)	(0.1)	(11.2)	(11.7)
At 31 May 2005	4.7	7.0	52.7	64.4
Depreciation				
At 1 June 2004	(0.4)	(2.4)	(41.1)	(43.9)
Differences on exchange	–	(0.1)	(0.3)	(0.4)
Charge for the year	(0.2)	(1.4)	(7.1)	(8.7)
Disposals	–	0.1	10.9	11.0
At 31 May 2005	(0.6)	(3.8)	(37.6)	(42.0)
Net book value				
At 31 May 2005	4.1	3.2	15.1	22.4

Included in the above analysis is plant and equipment acquired under finance leases, with a net book value of £2.2m (2005: £2.0m) after accumulated depreciation of £2.2m (2005: £1.8m). The net book value of leasehold properties comprises long leasehold £0.1m (2005: £0.3m) and short leasehold £3.4m (2005: £2.9m).

Included within additions for the year is £0.2m (2005: £0.3m) and within the depreciation charge for the year is £0.2m (2005: £0.3m) in respect of discontinued operations.

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20 Investments

all figures in £ millions	2006	2005
At 1 June	4.1	3.5
Additions	0.8	0.6
Disposals	(0.2)	–
Movements in fair value	(0.9)	–
At 31 May	3.8	4.1

The Group investments primarily comprise investments in US and European technology funds held at fair value with adjustments taken through the income statement. The investments are denominated in US dollars and euros and are non interest bearing. No market exists for trading in these funds and they are held for long-term growth. The Group has entered into agreements, whereby these funds can be drawn down to invest in start up and early stage companies in the Information Technology sector. A total of £0.8m of this commitment remains undrawn at 31 May 2006.

21 Trade and other receivables

all figures in £ millions	2006	2005
Trade receivables	87.1	83.2
Less: provision for impairment of receivables	(14.2)	(10.1)
	72.9	73.1
Other receivables	50.1	47.7
Prepayments	15.5	14.0
Contract work in progress	9.5	11.8
Accrued income	27.7	20.2
Current trade and other receivables	175.7	166.8
Other receivables	15.0	13.6
Accrued income	2.5	–
Non current trade and other receivables	17.5	13.6
Total trade and other receivables	193.2	180.4

Other receivables include amounts recoverable in Sesame from members and insurers (note 26).

22 Trade and other payables

all figures in £ millions	2006	2005
Trade payables	26.8	29.4
Other taxation and social security	7.9	10.0
Other payables	23.5	17.9
Accruals	95.6	80.4
Current trade and other payables	153.8	137.7
Other payables	1.4	0.8
Accruals	2.3	1.2
Non current trade and other payables	3.7	2.0
Total trade and other payables	157.5	139.7

Accruals comprise:

all figures in £ millions	2006	2005
Cost of sales (excluding staff related costs)	28.7	19.2
Staff related costs (including sales commissions and bonuses)	47.2	42.0
Other	22.0	20.4
	97.9	81.6

23 Loans and overdrafts

all figures in € millions	2006	2005
Bank overdrafts	9.5	-
Loan notes	1.2	2.1
Finance leases	1.1	1.0
Current loans and overdrafts	11.8	3.1
Bank loans	199.0	316.2
Finance leases	1.1	1.1
Non current loans and overdrafts	200.1	317.3
Total loans and overdrafts	211.9	320.4

During the year to May 2005 the Group negotiated a new \$850m revolving credit facility with a syndicate of banks. The facility comprised one tranche of \$585m which will mature not later than March 2010 and a second tranche of \$265m which was originally scheduled to mature not later than March 2007. During the year to May 2006 the maturity of this second tranche was extended and it will now mature not later than March 2008.

Bank loans

At 31 May 2006 the bank loans drawn down under the facility comprise £154.0m denominated in US dollars and £45.0m in sterling, which bore interest at 5.68% and an average of 5.52% respectively. All bank loans are unsecured.

Arrangement fees of £1.3m in respect of the \$850m facility were included in the original carrying value of the loan. During the year to May 2006 further arrangement fees of £0.2m were incurred. These costs are amortised in the income statement over the expected term of the facility. The amount of unamortised facility arrangement fees at 31 May 2006 is £0.8m.

The facility is guaranteed by Misys plc and certain other companies within the Group.

The Group is subject to certain financial covenants on its bank loans: these include a minimum ratio of operating profit, before depreciation and amortisation to net interest; and a maximum ratio of net debt to operating profit, before depreciation and amortisation.

24 Derivative financial instruments

All derivative financial instruments are measured at their fair value and are calculated by reference to the net present value of future cash flows, based on exchange rates and interest rates quoted in international financial markets at the balance sheet date.

all figures in € millions	31 May 2006		1 June 2005	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	0.1	-	-	-
Forward foreign currency contracts	0.8	(0.6)	0.9	(1.5)
Embedded derivatives	0.6	(2.6)	1.0	(3.2)
	1.5	(3.2)	1.9	(4.7)
Analysed as follows:				
Current	1.0	(0.7)	1.3	(2.1)
Non current	0.5	(2.5)	0.6	(2.6)
	1.5	(3.2)	1.9	(4.7)

Derivative financial instruments at 1 June 2005 are shown on the adoption of IAS 39 'Financial Instruments: Recognition and Measurement'.

Forward currency contracts used to hedge fair value and cash flow risks

Financial assets and liabilities, which are denominated in currencies other than those of the functional currencies of the entities concerned, are hedged using forward currency contracts. Gains and losses on these contracts are recorded in the income statement where they are offset by compensating gains and losses on the underlying items.

The Group also uses forward currency contracts to hedge the cash flow risk on contractually committed future cash flows. Where the amounts are material, the hedge accounting provisions of IAS 39 are adopted and gains and losses on these contracts are held in equity until they mature, when they are transferred to the income statement. Where the hedge accounting provisions of IAS 39 are not adopted, gains and losses are recognised immediately in the income statement. Gains and losses held in equity on forward currency contracts as of 31 May 2006 will be released to the income statement at various dates up to one year from the balance sheet date.

Embedded derivatives

Certain long-term software licencing contracts are priced in currencies other than those of the functional currencies of the entities entering into the contracts (usually US dollars, pounds sterling or euros). Under IAS 39, such contracts may contain an embedded foreign currency derivative which must be extracted from the host contract and measured separately at each balance sheet date. Gains or losses on these derivatives are charged or credited to the income statement. The contracts are generally of up to 10 years' duration, and this is therefore the period over which the assets and liabilities are expected to crystallise.

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25 Financial instruments

Financial liabilities

The interest rate and maturity profile of the Group's financial liabilities are as follows:

	Total £m	Floating rate liabilities £m	Fixed rate liabilities £m	Non interest bearing liabilities £m	Weighted average interest rate on fixed rate liabilities %	Weighted average period for which rate is fixed Years	Weighted average period for non interest bearing liabilities Years
At 31 May 2006							
Denominated in sterling	150.8	55.7	71.3	23.8	5.0	4.2	1.0
Denominated in US dollars	156.0	154.0	1.9	0.1	5.5	1.5	0.5
Denominated in euros	4.9	–	4.9	–	3.0	4.3	–
	311.7	209.7	78.1	23.9			
Due within one year	76.2	10.7	42.1	23.4			
Due within one to two years	19.7	–	19.2	0.5			
Due within two to five years	211.9	199.0	12.9	–			
Due after more than five years	3.9	–	3.9	–			
	311.7	209.7	78.1	23.9			
At 31 May 2005							
Denominated in sterling	153.9	65.9	60.0	28.0	4.8	4.7	1.5
Denominated in US dollars	254.1	252.4	1.6	0.1	5.5	1.4	0.5
	408.0	318.3	61.6	28.1			
Due within one year	61.2	2.1	33.8	25.3			
Due within one to two years	15.6	–	14.5	1.1			
Due within two to five years	326.8	316.2	9.0	1.6			
Due after more than five years	4.4	–	4.3	0.1			
	408.0	318.3	61.6	28.1			

In both years the carrying value of the Group's financial liabilities are equal to their fair value.

Floating rate liabilities comprise bank loans, overdrafts and loan notes and bear interest at rates linked to UK and US LIBOR or UK base rates, depending on the denomination of the loan. Fixed rate liabilities comprise property, lapse and regulatory review and complaints provisions and finance leases. The liabilities on which no interest is paid comprise non interest bearing contingent consideration and property and regulatory review and complaints provisions. These financial liabilities are disclosed in notes 23 and 26.

Financial assets

Financial assets primarily comprise cash deposits and investments. Cash which bears interest at nominal rates comprises £60.6m (2005: £26.8m) denominated in sterling, £14.3m (2005: £15.5m) in US dollars, £12.4m (2005: £6.6m) in euros and £6.4m (2005: £7.0m) in other currencies. Cash deposits of £23.5m (2005: £45.7m) denominated in sterling, accrue interest at rates based on LIBOR. Investments of £3.8m (2005: £4.1m) primarily comprise contractual rights to receive financial assets of US and European technology funds which are non interest bearing. Full details of these assets are given in note 20. In addition, the Group has sterling financial assets of £17.5m (2005: £13.6m) in respect of a receivable falling due in more than one year. This primarily relates to non interest bearing amounts in Sesame, expected to be recovered from members within the next four years.

Financial risk management

The Group's business activities expose it to a variety of financial risks: currency risk; credit risk; liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential effects of this on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments and investing excess liquidity.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily the US dollar and the euro. Such risks can arise from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

25 Financial instruments (continued)

Foreign exchange risks arise in a subsidiary when future commercial transactions and recognised assets and liabilities are denominated in currencies that are not the entity's functional currency. To manage this risk the subsidiary enters into forward contracts with Group Treasury. Group Treasury is responsible for managing the net position in each currency that arises from such exposures by using forward currency contracts with relationship banks.

Each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. Foreign exchange contracts taken with relationship banks are designated at Group as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis and are treated as cash flow hedges.

The Group's risk management policy is to hedge all contractually committed transactions as they occur.

Credit risk

The Group's principal financial assets are cash, bank balances and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. The Group has no significant concentrations of credit risk, with exposures spread over a large number of counterparties and customers.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from floating rate bank loans and from cash held on deposit. The Group's cash balances are kept in interest bearing current accounts and on short-term deposit, so as to maximise the level of return while maintaining an adequate level of liquidity. The Group does not invest surplus funds in long-term fixed interest securities, and is therefore not exposed to any significant fair value interest rate risk.

The Group's borrowings are primarily at variable interest rates, which expose the Group to cash flow interest rate risk. Interest rate caps are used to protect the Group against significant increases in interest rates.

26 Provisions for liabilities and charges

all figures in € millions	Lapse	Regulatory reviews and complaints	Property	Contingent consideration	Other	Total
At 1 June 2005	35.1	34.4	18.0	0.1	2.0	89.6
Additional provisions charged to income statement	52.6	35.2	3.6	-	0.2	91.6
Unwinding of discount	0.6	0.3	0.8	-	-	1.7
Release of provisions	-	(2.0)	-	-	-	(2.0)
Utilisation of provisions	(49.4)	(26.3)	(2.9)	-	(1.2)	(79.8)
On disposal of subsidiary undertaking	-	-	(0.2)	-	(0.2)	(0.4)
At 31 May 2006	38.9	41.6	19.3	0.1	0.8	100.7
Analysed as follows						
Current	26.0	32.7	5.7	-	0.4	64.8
Non current	12.9	8.9	13.6	0.1	0.4	35.9
	38.9	41.6	19.3	0.1	0.8	100.7

IFA Network provisions

all figures in € millions	Lapse			Regulatory reviews and complaints		
	Provision	Receivable	Net	Provision	Receivable	Net
At 1 June 2005	(35.1)	31.2	(3.9)	(34.4)	16.0	(18.4)
Net movement	(3.8)	3.6	(0.2)	(7.2)	5.1	(2.1)
At 31 May 2006	(38.9)	34.8	(4.1)	(41.6)	21.1	(20.5)

26 Provisions for liabilities and charges (continued)

Lapse

Lapse provisions of £38.9m (2005: £35.1m) are held in respect of commissions reclaimable by product providers on policies that may be cancelled within their indemnity period which is generally less than four years. The lapse provisions are mostly recoverable from members and are shown gross of the recoverable element, with the corresponding entry of £34.8m (2005: £31.2m) held within other receivables.

Regulatory reviews and complaints

Regulatory reviews and complaints provisions principally comprise the estimated costs arising from both received and future endowment complaints, costs arising from other received complaints, amounts in respect of a specific review relating to a former network member, the costs arising from a regulatory review of structured capital at risk products sales, and the FSAVC and pensions review processes. These provisions are expected to be utilised over the next four years and are partly recoverable from members and through insurance cover. The amounts are shown gross of the estimated recoverable element of £21.1m (2005: £16.0m) which is included within trade and other receivables. As a result the net provision is £20.5m (2005: £18.4m).

The net amounts charged to the income statement in the year in respect of regulatory reviews and complaints were £19.3m (2005: £7.9m) including £15.7m (2005: £8.9m) disclosed as an exceptional item (note 2).

Endowment complaints

During the past two years, along with the rest of the industry, Sesame has experienced a significant increase in the volume of complaints from consumers about advice given by IFAs regarding the sales of endowment policies. This is due to increased consumer awareness, poor stock market performance over the life of the policies and action taken by the majority of product providers to crystallise their liabilities with regard to past endowment complaints.

In 2005, given the levels of endowment complaints that were being received, the increasing rate at which they were being upheld and the expectation that the volumes of future complaints were going to be significant, a provision was made for the Directors' best estimate of the costs associated with complaints that were to be received in the future with respect to past sales of endowments.

During the year the estimates made at 31 May 2005 have been reviewed and updated to reflect the Directors' current best estimate based on the actual experience to date on the number of complaints received and the uphold rate. Assets have been recognised with respect to the estimated recoveries from professional indemnity insurance and the network members who gave the original advice.

The net provision for both received and future endowment complaints at 31 May 2006, and included within the regulatory reviews and complaints provision, is £19.8m (2005: £10.6m).

In calculating this figure significant judgement has been applied in estimating the volume of future endowment complaints, particularly where Sesame does not have records of the total number of endowment sales made prior to the acquisition by Misys of the networks involved. In addition, the volume and pattern of future endowment complaints will in part depend on future actions by product providers and the performance of investment markets. The effect of the significant uncertainties around the potential volume of future endowment complaints is compounded by the uncertainties surrounding the calculation of ultimate redress costs described above. As a result the final cost of future endowment complaints, which includes the administrative costs of handling these complaints, could be greater or less than the provision which has been made.

Structured capital at risk products

As noted in the 2005 Annual Report, in common with other companies in the sector a thematic review of Sesame's and its predecessor networks' past sales of structured capital at risk products was carried out by the Financial Services Authority ('FSA') during 2005. As a result of the review Sesame agreed to reassess the conclusions reached on historic complaints received, review promotional material and carry out a review of the suitability of a sample of sales selected from the general population of sales of structured capital at risk products made by its network members.

The reassessment of the complaints received to date is nearing completion and the sample review and the review of promotional material is at an advanced stage. Sesame has provided the FSA with the findings of the reviews and based upon this information the FSA has agreed that it would be disproportionate to require Sesame to undertake a wider or full population review.

Other provisions

The property provisions comprise the net present value of the estimated future costs of vacant and sublet properties and the excess over market value for occupied properties of subsidiaries acquired in previous years. The provision relating to vacant and sublet properties is expected to be utilised on average over the next seven years, and the excess over market value provision over the next six years. Included within the charge for the year is £3.6m (2005: £nil) which has been disclosed as an exceptional item.

Contingent consideration is non interest bearing and is payable in cash.

Included in other provisions are amounts in respect of litigation and non property related onerous contracts.

27 Deferred taxation

Deferred tax assets comprise:

all figures in £ millions	Losses	Other temporary differences	Total
At 1 June 2005	11.8	10.1	21.9
Adjustment on the implementation of IAS 39 (note 37)	-	0.9	0.9
Acquisition of subsidiaries	3.8	1.1	4.9
Charged to the income statement	(0.1)	(2.6)	(2.7)
Charged to equity in respect of share-based payments	-	(0.1)	(0.1)
Other charges to equity	-	(2.4)	(2.4)
Currency translation differences	-	0.2	0.2
At 31 May 2006	15.5	7.2	22.7

all figures in £ millions	Losses	Other temporary differences	Total
At 1 June 2004	8.9	12.5	21.4
Credited (charged) to income statement	2.9	(3.6)	(0.7)
Charged to equity in respect of share-based payments	-	0.1	0.1
Other charges to equity	-	0.8	0.8
Currency translation differences	-	0.3	0.3
At 31 May 2005	11.8	10.1	21.9

Deferred tax assets recoverable within one year are £5.5m (2005: £3.9m).

Deferred tax assets of £15.5m (2005: £11.8m) have been recognised in respect of carried forward losses, which, on the basis of the latest forecasts, are expected to be recovered against future profits. Deferred tax assets of £32.2m (2005: £27.2m) in respect of other losses have not been recognised due to uncertainty with respect to the unwind against future profit streams.

Deferred tax assets on other temporary differences of £7.2m (2005: £10.1m) have been recognised in respect of deductions which on the basis of the latest forecasts, are more likely than not to be utilised. Other temporary differences of £31.8m (2005: £20.3m) and accelerated capital allowances of £5.9m (2005: £5.7m) have not been recognised due to the unpredictability of future profits when these temporary differences will unwind.

There would be no additional cost of repatriation of unremitted earnings of subsidiaries to the UK because of the availability of foreign tax credits against any UK tax liability arising.

There is an unrecognised deductible temporary difference of £232.8m (2005: £232.8m) in respect of capital losses in the UK. These losses can only be utilised against specific types of future capital gain.

28 Deferred income

all figures in £ millions	2006	2005
Maintenance fees	81.7	76.9
Other income	33.0	31.9
Current deferred income	114.7	108.8
Maintenance fees	2.0	3.5
Other income	2.3	5.0
Non current deferred income	4.3	8.5
Total deferred income	119.0	117.3

Deferred maintenance fees represent amounts invoiced in advance for contracts which provide technical support and trouble shooting assistance (helpdesk, etc) in addition to upgrades and enhancements to the Group's software products and hardware maintenance. Maintenance fees are recognised as revenue rateably as the services are provided over the period of the contract.

Other deferred income represents amounts invoiced, including deposits, primarily in respect of initial licence fees for software products and professional services for which the revenue recognition criteria have yet to be satisfied.

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29 Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes covering the majority of its employees. The cost of these pension schemes was £12.5m (2005: £12.9m) and was charged to the income statement as incurred. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

Defined benefit schemes

In 2003/04 the active members of the UK final salary scheme ceased to accrue benefits on the basis of their final salary during the year. Thereafter the benefits of the active members accrue on a money purchase (defined contribution) basis. The Group made a special payment of £5.0m in the current year to address the deficit in the scheme.

In addition, the Group operates a number of other smaller defined benefit arrangements.

The latest full actuarial valuation of the UK scheme was carried out as at 31 May 2005; the assumptions of which have been updated to 31 May 2006 by qualified independent actuaries. The last full actuarial valuations of the other Group schemes were carried out on a number of different dates; these assumptions have been updated to 31 May 2006 by qualified independent actuaries.

The principal assumptions used in the valuations of the schemes are:

all figures in %	2006	2005	2004
Rate of increase in salaries	n/a	n/a	6.0
Rate of increase in pensions in payment	3.5	3.5	3.5
Discount rate	5.0	5.1	5.8
Inflation assumption	3.0	2.7	3.0

The expected rates of return on scheme assets are based on the long-term expected rates of return for each asset class. Mortality assumptions are based on the PA92 Standard Mortality tables. The year end assets in the schemes and the expected rates of return were:

	Long term expected rate of return %	2006 Value £m	Long term expected rate of return %	2005 Value £m	Long term expected rate of return %	2004 Value £m
Equities	7.4	30.6	7.4	23.0	8.1	20.0
Government bonds	4.4	4.6	4.4	3.8	5.1	3.5
Corporate bonds	5.0	4.6	5.1	3.8	5.8	3.5
Cash	4.6	0.1	4.8	–	4.3	0.1
Total market value of assets		39.9		30.6		27.1
Actuarial value of liabilities		(40.6)		(39.4)		(33.5)
Deficit in the schemes		(0.7)		(8.8)		(6.4)
Related deferred tax asset		0.2		2.7		1.8
Pension liability		(0.5)		(6.1)		(4.6)

Movement in deficit during the year:

all figures in £ millions	2006	2005
Scheme assets		
Fair value at 1 June	30.6	27.1
Expected return on plan assets (note 7)	2.1	2.0
Actuarial gain	3.0	2.0
Contributions paid	5.0	–
Net benefits paid out	(0.8)	(0.5)
Fair value at 31 May	39.9	30.6
Benefit obligations		
Present value at 1 June	(39.4)	(33.5)
Interest cost (note 7)	(1.9)	(1.9)
Actuarial losses	(0.1)	(4.5)
Net benefits paid out	0.8	0.5
Present value at 31 May	(40.6)	(39.4)
Net liability	(0.7)	(8.8)

29 Retirement benefit obligations (continued)

The actual return on schemes' assets was £5.1m (2005: £4.0m). The total gain recognised in the statement of recognised income and expenditure was £2.9m (2005: £2.5m loss). The cumulative amount of gains recognised in the statement of recognised income and expenditure was £0.4m (2005: £2.5m loss).

History of experience gains and losses:

	2006	2005
Experience gains on schemes' assets		
Amount (£m)	3.0	2.0
Percentage of schemes' assets	7.5%	6.5%
Experience gains on schemes' liabilities		
Amount (£m)	4.1	–
Percentage of schemes' liabilities	10.1%	–

30 Contingent liabilities

Within Sesame, the regulatory requirements governing the IFA network business receive significant attention. Compliance with these regulations is subject to a process of ongoing review and appraisal by both the FSA and the Directors. Provision is made for the costs arising from specific regulatory reviews as well as from complaints from consumers, both received and anticipated, where these can be reliably estimated as set out in note 26.

The final cost of settling these complaints is uncertain and depends upon the proportion of complaints ultimately proved to be valid, the redress cost on each policy, which in turn is dependent upon the performance of investment markets, and the administrative cost of handling the complaints. The recoverability of these costs will depend on whether the Sesame or member insurance policy responds, and if so, what level of excess will apply and the ability of Sesame to recover costs from members, many of whom are no longer part of the network. In establishing the year end provision, assumptions have been made regarding each of these based on recent actual experience. As a result the actual cost may differ from that for which provision has been made. No allowance has been made for any future regulatory action by the FSA.

Contingent liabilities that are quantifiable arise from property rental guarantees that have been issued in the normal course of business and also from bonds that have been issued in support of tenders submitted to prospective customers. These amount to £9.7m (2005: £8.5m).

As set out in note 29, the Group operates defined contribution pension schemes including within the US. The Group has applied to the IRS to correct a number of errors that had inadvertently been made in the operation of part of the US schemes, in order to preserve their favourable tax treatment. At this stage it is not practicable to estimate whether or not this will result in a cost to the Company. The annual contributions to the schemes by the Group are £5.2m (2005: £5.9m).

The Group's subsidiaries and the Company can be parties to legal actions and claims arising in the ordinary course of business. Whilst the outcome of current outstanding actions and claims remains uncertain, it is expected that they will be resolved without a material impact on the Group's financial position.

31 Commitments

Commitments of the Group under non cancellable operating leases at 31 May:

all figures in £ millions	2006		2005	
	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
Rental payments due within one year	16.8	0.4	16.3	0.9
Rental payments due between two and five years	50.9	0.6	41.4	0.7
Rental payments due after five years	31.2	–	24.6	–
	98.9	1.0	82.3	1.6

Capital expenditure on property, plant and equipment committed by the Group at 31 May 2006 was £0.3m (2005: Enil).

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32 Related party transactions

Transactions between Misys plc 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 key management personnel of the Group comprise the Directors of the Company and three senior managers and their remuneration is set out below in aggregate.

all figures in £ millions	2006	2005
Short-term employment benefits	4.3	3.9
Post employment benefits	0.6	0.6
Termination benefits	0.7	-
Share-based payment benefits	2.2	2.1

33 Called up share capital

The Company has an authorised share capital of 750,000,000 1p ordinary shares (2005: 750,000,000). The table below reconciles the allotted and fully paid share capital to those shares not held by the Company.

all figures in numbers	Allotted, fully paid share capital	Treasury	MEST	ESOP	Total
At 1 June 2005	559,407,803	(51,062,000)	(23,020,128)	(129,482)	485,196,193
Purchase of own shares	-	(11,740,000)	(161,396)	-	(11,901,396)
Share options exercised	319,233	2,408,564	814,886	-	3,542,683
Cancellation of treasury shares	(8,000,000)	8,000,000	-	-	-
At 31 May 2006	551,727,036	(52,393,436)	(22,366,638)	(129,482)	476,837,480

During the year 319,233 (2005: 690,319) shares were issued for a consideration of £0.6m (2005: £1.2m) to satisfy share awards.

During the year 11,740,000 (2005: 26,410,000) ordinary shares were purchased by the Company, representing 2.1% (2005: 4.7%) of the issued share capital of Misys plc, for a total cost, including expenses, of £24.9m (2005: £52.9m). These are held as Treasury shares within reserves and represent a deduction from shareholders' funds.

During the year 2,408,564 (2005: 1,613,677) Treasury shares, with a cost of £4.9m (2005: £3.3m), were utilised to satisfy share awards and 8,000,000 (2005: nil) Treasury shares with a cost of £16.1m (2005: nil) were cancelled. In the prior year 164,323 Treasury shares, with a cost of £0.3m, were transferred to the Misys Employee Share Trust ('MEST').

The MEST purchases shares in the market using funds contributed by the respective Group employing companies. These shares are used to satisfy awards made under the Group's share incentive arrangements. At 31 May 2006 the MEST held 22,366,638 (2005: 23,020,128) shares purchased for a cost of £53.1m (2005: £54.5m) and with a market value of £40.2m (2005: £49.8m). During the year it utilised shares with a cost of £1.8m (2005: £6.7m) to satisfy share awards.

The Employee Share Ownership Plan ('ESOP') purchases shares in the market using funds loaned by the Company. Share purchases are timed to ensure that the ESOP has sufficient shares to satisfy its requirements as and when its obligations fall due. The Trustees of the ESOP have waived its rights to dividends. At 31 May 2006, the ESOP held 129,482 (2005: 129,482) shares, purchased for a cost of £0.3m (2005: £0.3m) and with a market value of £0.2m (2005: £0.3m). During the prior year the ESOP utilised shares with a cost of £35,000 to satisfy its obligations.

34 Share capital and reserves

all figures in € millions	Share capital	Share premium	Capital redemption reserve	Other reserves	Total	Minority interest	Equity share-holders' funds
At 1 June 2005	5.6	66.5	0.2	(235.0)	(162.7)	3.3	(159.4)
Adjustment on the implementation of IAS 39 (note 37)	-	-	-	(1.7)	(1.7)	-	(1.7)
Total recognised income and expense for the period	-	-	-	215.5	215.5	-	215.5
Dividends paid	-	-	-	(33.7)	(33.7)	-	(33.7)
Share options exercised	-	0.6	-	-	0.6	-	0.6
Share options settled from own shares	-	0.1	-	4.5	4.6	-	4.6
Cancellation of treasury shares	(0.1)	-	0.1	-	-	-	-
Purchase of and other movements in own shares	-	-	-	(25.3)	(25.3)	-	(25.3)
Share-based payments	-	-	-	9.8	9.8	-	9.8
Deferred tax on share-based payments	-	-	-	(0.1)	(0.1)	-	(0.1)
Minority interests disposed of	-	-	-	-	-	(3.3)	(3.3)
At 31 May 2006	5.5	67.2	0.3	(66.0)	7.0	-	7.0

all figures in € millions	Share capital	Share premium	Capital redemption reserve	Other reserves	Total	Minority interest	Equity share-holders' funds
At 1 June 2004	5.6	65.3	0.2	(220.4)	(149.3)	2.9	(146.4)
Total recognised income and expense for the period	-	-	-	59.7	59.7	0.4	60.1
Dividends paid	-	-	-	(33.5)	(33.5)	-	(33.5)
Share options exercised	-	1.2	-	-	1.2	-	1.2
Share options settled from own shares	-	-	-	2.5	2.5	-	2.5
Purchase of and other movements in own shares	-	-	-	(53.8)	(53.8)	-	(53.8)
Share-based payments	-	-	-	10.4	10.4	-	10.4
Deferred tax on share-based payments	-	-	-	0.1	0.1	-	0.1
At 31 May 2005	5.6	66.5	0.2	(235.0)	(162.7)	3.3	(159.4)

35 Other reserves

all figures in € millions	Retained earnings	Treasury shares	Own shares	Translation reserve	Total
At 1 June 2005	(77.3)	(102.3)	(54.8)	(0.6)	(235.0)
Adjustment on the implementation of IAS 39 (note 37)	(1.7)	-	-	-	(1.7)
Total recognised income and expense for the period	213.6	-	-	1.9	215.5
Dividends paid	(33.7)	-	-	-	(33.7)
Share options settled from own shares	(2.2)	4.9	1.8	-	4.5
Cancellation of treasury shares	(16.1)	16.1	-	-	-
Purchase of and other movements of own shares	-	(24.9)	(0.4)	-	(25.3)
Share-based payments	9.8	-	-	-	9.8
Deferred tax on share-based payments	(0.1)	-	-	-	(0.1)
At 31 May 2006	92.3	(106.2)	(53.4)	1.3	(66.0)

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35 Other reserves (continued)

all figures in £ millions	Retained earnings	Treasury shares	Own shares	Translation reserve	Total
At 1 June 2004	(106.2)	(53.0)	(61.2)	–	(220.4)
Total recognised income and expense for the period	60.3	–	–	(0.6)	59.7
Dividends paid	(33.5)	–	–	–	(33.5)
Share options settled from own shares	(7.5)	3.3	6.7	–	2.5
Purchase of and other movements of own shares	(0.9)	(52.6)	(0.3)	–	(53.8)
Share-based payments	10.4	–	–	–	10.4
Deferred tax on share-based payments	0.1	–	–	–	0.1
At 31 May 2005	(77.3)	(102.3)	(54.8)	(0.6)	(235.0)

36 Post balance sheet events

On 18 July 2006, the Group announced the disposal of its Apollo asset management business.

37 Adoption of IAS 39

As permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards', the Group elected to defer implementation of IAS 39 'Financial Instruments: Recognition and Measurement' until the year ending 31 May 2006. The effect of adopting IAS 39 on the balance sheet at 1 June 2005 is as follows:

all figures in £ millions	At 31 May 2005	Transition adjustment	At 1 June 2005
Non current assets			
Trade and other receivables	13.6	0.6	14.2
Deferred tax assets	21.9	0.9	22.8
Current assets			
Trade and other receivables	166.8	1.1	167.9
Current liabilities			
Trade and other payables	(137.7)	(1.7)	(139.4)
Non current liabilities			
Trade and other payables	(2.0)	(2.6)	(4.6)
Other assets and liabilities	(222.0)	–	(222.0)
Net liabilities	(159.4)	(1.7)	(161.1)

The most significant financial instruments recognised on the adoption of IAS 39 for the Group are embedded foreign currency derivatives which occur when certain software licensing contracts are priced in a currency which is different to the functional currency of those companies entering into the transaction. The net effect of this at 1 June 2005 was a £2.2m charge.

Other financial instruments recognised include foreign exchange contracts, taken out to eliminate transactional currency exposures, and interest rate hedges, taken out to protect the Group's interest charge from increases in interest rates, which had an effect of a charge of £0.2m and £0.2m respectively at 1 June 2005.

There was a deferred tax asset on the above items of £0.9m at 1 June 2005.

Exchange gains or losses on debt previously hedging goodwill written off to reserves

On consolidation, the results of overseas operations are translated into sterling at the average exchange rate for the period, and their assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Currency translation differences are recognised in the translation reserve. All material assets and liabilities that are not denominated in the functional currency of the operation involved are hedged using forward foreign currency contracts. Exceptions to this are the Group's external foreign currency borrowings (principally US dollar borrowings) which are held as a partial natural hedge against the Group's foreign net investments.

On the adoption of IAS 39 a portion of the US dollar borrowings, which qualified for hedge accounting under UK GAAP, no longer qualify for this treatment. This difference arises as a result of the different treatment of goodwill previously written off to reserves under IAS 39 compared with UK GAAP. As a result, the foreign exchange gains or losses arising on the retranslation of the non-qualifying amount of the US\$ borrowings are recognised in the income statement as 'exchange gains or losses on debt previously hedging goodwill written off to reserves'. This resulted in a charge of £0.2m in the year, being the first period of adoption. This comprised a charge of £6.4m in the first half and a credit of £6.2m in the second half.

Foreign exchange gains and losses on embedded derivatives and on debt previously hedging goodwill written off to reserves are excluded from the calculation of adjusted earnings per share.

38 Transition to IFRS

Reconciliation of retained profit for the year ended 31 May 2005

all figures in € millions	Note	
Retained profit under UK GAAP		14.8
Goodwill amortisation	a	52.1
Development costs	b	7.6
Share-based payments	c	(8.9)
Other	d	(3.2)
Retained profit under IFRS		62.4

Reconciliation of shareholders' equity as at 31 May 2005

all figures in € millions	Note	31 May 2005	1 June 2004
Total equity under UK GAAP		(252.6)	(182.5)
Goodwill amortisation	a	52.1	-
Development costs	b	18.4	10.7
Other adjustments	d	22.7	25.4
Total equity under IFRS		(159.4)	(146.4)

Earnings per share for the year ended 31 May 2005

all figures in pence	Basic		Diluted	
	UK GAAP	IFRS	UK GAAP	IFRS
Earnings per share	2.9	12.4	2.8	12.3
Goodwill amortisation	10.4	-	10.3	-
Amortisation of acquired intangibles	-	0.1	-	0.1
Estimated cost and redress payments associated with regulatory reviews and endowment complaints	1.8	1.8	1.8	1.8
Loss on disposal of business	0.5	0.5	0.5	0.5
Adjusted earnings per share	15.6	14.8	15.4	14.7

Background

The Group previously prepared its financial statements in accordance with UK GAAP. From 1 June 2005, the Group is required to prepare its consolidated financial statements in accordance with IFRS, as adopted by the European Union. As the 2006 financial statements include comparatives for 2005, the Group's date of transition to IFRS under IFRS 1 'First Time Adoption of IFRS' is 1 June 2004 and the 2005 comparatives are restated to IFRS.

IFRS 1 exemptions

IFRS 1 permits those companies adopting IFRS for the first time certain exemptions. The Group has taken the following exemptions:

- IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' on financial instruments have been adopted from 1 June 2005 and comparative information has not be restated.
- IFRS 3 'Business Combinations' has been applied prospectively from 1 June 2004.
- Cumulative translation differences for all foreign operations have been set to zero at 1 June 2004.
- The Group has recognised actuarial gains and losses in full through the statement of recognised income and expense.
- IFRS 2 'Share-based Payments' has been applied to all equity instruments that had not vested on or before 31 May 2004.

IFRS adjustments

The primary adjustments arising from the adoption of IFRS are described further below:

(a) Goodwill

Under UK GAAP goodwill was capitalised and amortised over its useful economic life, up to a maximum period of 20 years. Under IFRS, goodwill is not amortised but is subject to impairment testing on at least an annual basis. The goodwill amortisation charge under UK GAAP of €52.1m for the year ended 31 May 2005 has been reversed in the IFRS restated results.

38 Transition to IFRS (continued)

(b) Developed software

Under UK GAAP, the costs of internally developed software licences and upgrades were expensed as incurred, irrespective of the future value expected from the results of the development activity. IAS 38 'Intangible Assets' requires that certain development costs are capitalised when the criteria set out in the standard are met.

The effect of adopting IFRS is to capitalise development costs previously expensed under UK GAAP. Any capitalised costs are amortised over the useful life of the product. The impact on the income statement for the year to 31 May 2005 is £7.6m.

(c) Share-based payments

The Group operates a variety of share-based employee incentive arrangements which typically include the grant of share options.

Under UK GAAP, the intrinsic value of an award under the Group's share plans was charged as an operating cost over the period of performance of the employee receiving the award. Inland Revenue approved SAYE schemes (and their overseas equivalents) were outside the scope of UITF Abstract 17, and a charge was therefore not recorded in respect of these schemes even where the options were granted at a discount to the market price at the date of invitation.

IFRS 2 requires that an expense is recognised in the income statement based on the fair value of an award at the date of grant for all share-based incentive schemes. The expense is spread over the period for which services are received from employees, which is assumed to be the vesting period of the award.

The impact of adopting IFRS is to increase the share-based payment charge in the income statement, primarily because IFRS 2 covers market value schemes and schemes which were outside the scope of UITF 17.

The total IFRS charge for the year to 31 May 2005 is £10.4m compared with £1.5m under UK GAAP, resulting in an incremental charge of £8.9m.

(d) Other adjustments

Acquired intangible assets

After transition to IFRS, there is a requirement to assess and recognise the fair value of all separately identifiable intangible assets that are acquired as part of a business combination. Under UK GAAP, such items were generally subsumed within goodwill. As a result of this change, £1.8m was reclassified from goodwill to other intangibles in respect of the acquisition of IDOM Consulting (UK) Limited in August 2004, of which £0.3m was amortised during the year. A deferred tax liability of £0.6m arose on the recognition of the intangible assets, giving rise to an additional £0.6m goodwill. As explained in note 10, the adjusted EPS excludes this charge for the amortisation of acquired intangible assets.

Discounting

Under IFRS, provisions are discounted to their fair value at the balance sheet date. As the discounting effect unwinds over time, the resulting increase in the provision is treated as a finance cost. Where provisions relate to claims that are recoverable from a third party, the corresponding debtor balance has also been discounted.

The effect of this adjustment on the balance sheet at 31 May 2005 is to decrease non-current provisions by £1.2m and non-current receivables by £0.9m. An additional charge of £0.2m has been included within finance costs for the full year.

Holiday pay

IAS 19 requires that a liability is recorded for all accrued entitlements for holiday at each balance sheet date. The additional accrual at 31 May 2005 (which has been adjusted within current trade and other payables) is £2.0m, and an additional charge of £0.8m has been recorded in the year to 31 May 2005.

Dividends

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

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

The impact of IFRS is to remove the £20.7m accrual for the 2004/05 final dividend in the balance sheet at 31 May 2005.

Taxation

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

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

Current tax assets and liabilities are shown separately on the face of the balance sheet.

The principal impact of adopting IFRS has been to recognise an additional deferred tax asset of £3.1m at 31 May 2005. This is in respect of developed software costs, tax allowable goodwill on acquisitions, share-based payments and holiday pay liabilities.

The movement on this balance during the year ended 31 May 2005 is such as to create an additional deferred tax charge of £1.9m in that year.

Cash flow statement

The transition from UK GAAP to IFRS does not change any of the cash flows of the Group. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK GAAP cash flow statement. All of the IFRS accounting adjustments net out within cash flow from operating activities except for the reclassification of expenditure on developed software to cash used in investing activities.