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T: +44 (0)1625 666900 W: www.wandc.com

iSOFT
inspired by life

iSOFT Group plc
2006 Annual Report and Accounts

for the year ended 30 April 2006

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Email: info@isoftplc.com

www.isoftplc.com

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A Patient's Journey

How LORENZO supports it every step of the way

01
Scott Waldron feels so unwell that an ambulance has to be called.

02
Paramedics arrive and find he has extremely high blood sugar levels.

03
At the hospital, diabetic ketoacidosis is diagnosed and the appropriate treatment is prescribed.

04
A specialist nurse is brought in to advise Scott on the management of his condition.

Images removed for filing purposes.
Please visit www.isoftplc.com/investor for complete version.

LORENZO Interaction

Using iSOFT's LORENZO solution on a tablet PC, a paramedic inputs details of Scott's condition to alert the local hospital.

Details of the hospital's diagnosis and the treatment pathway are entered into Scott's care record, again using LORENZO on a tablet PC. A colour retinal photograph is also booked.

05
After discharge, Scott has a colour retinal photograph to check for possible diabetes-related damage to his eyes.

Via LORENZO, the results of the colour retinal photograph are added to his record and passed on to his GP.

06
At home, he regularly checks his blood sugar level.

LORENZO enables Scott to play an active role in managing his condition. Using his digital TV and its remote control, he updates his own record with details of his blood sugar level and blood pressure. From the TV screen, he can also check when he needs to take his medication.

07
Scott requires a repeat prescription for insulin.

Scott is automatically informed by text message that he needs a repeat prescription. Using LORENZO, his GP sends the prescription electronically to Scott's local pharmacy.

08
Scott can smile again, knowing his illness is being treated and his condition monitored.

iSOFT is one of the world's leading suppliers of advanced medical software applications for the healthcare sector. With our core application set – LORENZO – we are at the forefront of the technology revolution taking place in healthcare.

Our products are used by more than 8,000 organisations in 27 countries for managing patient information and driving improvements in healthcare services.

We continue to focus on developing innovative application solutions for all our target markets, and we have over 1,400 technology specialists engaged in software design, development and solution delivery.

Report of the Chairman and Chief Executive Officer: The second half of the financial year ended 30 April 2006 was a turbulent period for iSOFT...

Background

The second half of the financial year ended 30 April 2006 was a turbulent period for iSOFT and long-term shareholders will be feeling deeply disappointed by the events of recent months. I joined the Group as Chairman in October last year and share that disappointment, but I am determined to see through a series of actions and change that I believe are necessary to put this company back on a solid footing and enable it to capitalise on its underlying product strengths and experience.

The recent phase of events was triggered by the need to issue a trading statement in January 2006 warning of a sharp reduction in revenues and profitability for the year ended 30 April 2006, primarily due to delivery and implementation delays at the UK National Health Service under the National Programme for IT ("NPfIT"). The NPfIT, which is explained in greater detail on page 18, is a bold initiative that I believe will become a blueprint for the delivery of integrated healthcare on a national basis. However, the sheer scale of the project and its pioneering aspects have resulted in delays to the delivery schedule for a wide variety of reasons, some of which are beyond iSOFT's control. The National Audit Office report published in June 2006 explains these reasons, which I am sure will be addressed.

The January trading statement, together with a related trading update issued on 28 April 2006, had a negative impact on the Group's share price.

Revenue recognition accounting policy
In June 2006 the Board announced that it had decided to change the Group's accounting policy for revenue recognition to an appropriate policy for today's commercial situation. That change is incorporated in the results announced today. In the past, iSOFT was primarily a software product company serving independent hospital and family doctor trusts. The Group is now engaged with larger, more complex and longer-term projects, in which it is increasingly difficult to distinguish between the supply of product licences and their implementation. As a result, the current Board has decided that the use of the previous accounting policy has become inappropriate and has decided that licence revenues will in future typically be recognised over the period of implementation, which may range from a few months to a number of years from contract signature, and over the full contract duration in the case of bundled services.

The change in revenue recognition policy has been implemented by way of a prior year adjustment as mandated by International Financial Reporting Standard 1. This requires the Group to provide comparable figures prepared on a consistent basis for the financial year ended 30 April 2005. The accounting policy restatement has involved reversing revenues of £76 million, £54 million and £44 million (total: £174 million) which were recognised in the years ended 30 April 2005, 2004 and 2003 or earlier, respectively. Those revenues will now be recognised in future years in accordance with the provisions of the new accounting policy. In calculating the prior year adjustment, note 1 to the accounts outlines the limitations in the historical data available to the Board.

The Group believes that, of the £174 million revenues reversed, approximately £40-50 million will be recognised in each of the years ending 30 April 2007 and 2008, and the majority of the balance in the following three years. The main benefit of this change will be that revenues will reflect more closely the Group's trading activities and be more closely aligned with the Group's operational cash flows for the financial year 2009 and subsequently.

As a result of work carried out by our auditors to review the adjustment to past revenues, possible accounting irregularities have come to light which have been the subject of an investigation by Deloitte & Touche LLP and Eversheds LLP. Deloitte & Touche LLP was appointed as the Group's auditor in July 2005 and was not therefore acting for the Group during the period covered by the investigation. After an initial review, the Board has deemed it appropriate to suspend Steve Graham, the Group's Commercial Director, pending the outcome of a more formal investigation.

The investigation concerns several contracts where it would appear that revenues have been recognised earlier than they should have been in the financial years ended 30 April 2004 and 2005 under the accounting policy in force at that time. The irregularities uncovered to date do not appear to have affected the cash position of the Group. The investigation by Deloitte & Touche LLP and Eversheds LLP is complete and a more formal investigation by the FSA is under way at today's date, which may take some months to complete.

Results for the year ended 30 April 2006
Based on the accounting policies that iSOFT used previously, the Group would have recorded revenues of £214.0 million for the year ended 30 April 2006, which was within the guidance range given in the trading statement issued on 28 April 2006. This was below the figure of £262.0 million reported for the previous financial year, mainly as a result of delivery delays under the NPfIT in England. Profit before tax and goodwill impairment under previous policies, would have been £16.4 million (2005: £44.5 million).

Under the new accounting policy and following the adoption of IFRS, the Group is reporting revenues for the year ended 30 April 2006 of £201.7 million, an increase of 8.4% compared with restated revenues of £186.1 million for the previous financial year. After excluding the impact of acquiring the Spanish subsidiary Novasoft Sanidad S.A. in October 2005, organic revenue growth was 6.0%. Profit from operations before goodwill impairment was £13.3 million, compared with a restated profit from operations of £8.5 million for the previous financial year.

The Group had substantial goodwill, before impairment, of £495.5 million on its balance sheet at 30 April 2006, more than 80% of which related to the acquisition of Torex in the 2004 financial year, with the remainder arising from smaller acquisitions. Based on expected cash flows from trading operations in the foreseeable future, the Board has decided that it would be appropriate to take a one-time impairment charge of £351.4 million in respect of goodwill, reducing its value held on the balance sheet at 30 April 2006 to £144.1 million. The Group is required to review the carrying value of goodwill annually under the new IFRS accounting rules.

After applying the impairment charge of £362.5 million to the Company's carrying value of fixed asset investments, the Company will have no distributable reserves and will therefore be unable to pay a final dividend for the financial year ended 30 April 2006. The Group intends to evaluate the opportunities for altering its existing capital structure in order to address this distributable reserves deficit. Nevertheless, we will only be able to pay dividends in future as and when resources permit.

The change in accounting policy for revenue recognition and goodwill impairment charge had no effect on cash flow performance last year and the Group ended the year with net cash of £16.2 million, excluding the value of contract finance arrangements brought onto the balance sheet at April 2006. However, a combination of lower upfront payments from customers under today's larger and more complex contracts, together with a decision to limit the use of non-recourse financing in future, will result in an unwinding of customer upfront payments over the next few years. Consequently, the Group will need to utilise its bank facilities more extensively than in the past.

Due to the lack of historic contractual cost and activity information, as explained further in note 1 on page 71, it has not been possible to restate historic revenues on a strict stage of completion basis, and therefore we have concluded that the most appropriate and practicable basis in the circumstances, is to recognise revenue on existing contracts using time as the basis of recognition. In addition, as a result of limitations created by the potential outcome of the investigation into possible accounting irregularities and a lack of conclusive evidence regarding deliveries under the NPfIT, the independent auditors have been unable to give an opinion as to whether the financial statements give a true and fair view in respect of the accounts for the year ended 30 April 2006 and the comparative figures for the year ended 30 April 2005. Details are contained in note 1 to the accounts and in the independent auditors' report.

Borrowing facilities

At 30 April 2006 the Group had bank facilities of £144 million, including a revolving credit facility of £105 million and a term loan facility of £39 million, both expiring in 2008. In the past, a significant proportion of cash flows were derived from customers willing to pay upfront for product and services or from the financing of customer receivables. In the main, these upfront payments fell into two categories; firstly, payments supported by letters of credit and guarantees, which amounted to £88.2 million at 30 April 2006 provided under the £105 million revolving credit facility, and secondly, payments via third-party contract financing arrangements which amounted to approximately £62 million at 30 April 2006. Following the adoption of IFRS and further detailed review these contract financing arrangements have been brought on to the balance sheet.

The Group's principal covenants under its bank facilities were that net financial indebtedness, including letters of credit issued in support of upfront payments (but excluding non recourse financing), may not exceed three times earnings before tax, interest, depreciation and amortisation ("EBITDA"), and net interest cover must be greater than five times earnings before interest and taxation ("EBIT").

Due to the adoption of the new accounting policy and the expected future cash flow profile of the business, some aspects of the Group's banking facilities have had to be amended. The Group has

The Group has been taking, and continues to take, action to re-align its operating costs with future revenue expectations. The Group is targeting to reduce its total operating cost base to below £185 million by the end of the current financial year.

therefore undertaken discussions with its banks with the objective of agreeing new terms. The outcome of those discussions is that the Group will retain the current facilities with no further amortisation of the term loan and additional facilities of £25 million which will be available in certain circumstances until November 2007 on new terms. These terms include an upfront fee of £1.2 million and higher costs of borrowing including Payment In Kind (PIK) interest from 1 January 2007 of 5% per annum for the 3 months to 31 March 2007, 7.5% per annum for the 3 months to 30 June 2007 and 10% per annum thereafter. Within those terms, the Group will issue warrants amounting to 3.7% of iSOFT equity to the banks, with a strike price of 10p, when shareholder approval is obtained. An exit fee of £15 million is payable at the end of the facility, on refinancing or on change of control of the Company, and if the warrants are not issued prior to 31 October 2006. If the warrants are issued prior to 31 October 2006 then no exit fee is payable. Further details of the revised banking facilities are available in the Financial Review on page 22.

The new terms will provide the Group with funding for its ongoing operations, see note 1, and provide a period of stability in which we can consider and execute a longer term financial strategy.

Disposal of non-core assets
As part of the review of its financial position, the Group is considering the disposal of several non-core assets, including freehold properties. We announced the disposal of our Swiss operation to Nexus Medizinesoftware und Systeme AG on 31 May 2006. That operation had revenues of less than £5 million last year, but generated a loss of £0.7 million. The sale and purchase agreement will allow iSOFT to focus on its key markets, whilst at the same time retaining the right to sell our strategic product offering LORENZO into that market in due course.

We have already carried out an extensive consolidation of UK locations following the merger with Torex and some further rationalisation of our locations is taking place at the moment. The Group owns two freehold properties and these will be divested as soon as possible.

Streamlining the cost base
The Group has been taking, and continues to take, action to re-align its operating costs with future revenue expectations. As part of this process we are examining in detail the operating cost structure of each of our operations, both in the UK and internationally, to identify areas for cost reduction and improved organisational efficiency. The Group is targeting to reduce its total operating cost base from an annual run rate of just over £209 million at 1 May 2006 to below £185 million by the end of the current financial year. The current run-rate is higher than the total actual cost incurred for the year just ended because the Group has increased significantly its level of development resources to support both existing and future applications.

As part of the plan to reduce costs, the Group entered into a consultation process with employees in the UK in early May 2006 and it is likely that at least 150 employees, representing approximately 15% of total headcount in the UK, will be made redundant. The cost of this action will be about £3 million, but is expected to reduce the current annual cost base by approximately £6 million.

The Group also intends to reduce staff levels in some of its international operations and has taken steps to reduce sub-contract and overhead costs as part of the financial year 2007 budget review process. The total cost of action already in hand to reduce the cost base, which will be taken as a one-time charge in the year ending 30 April 2007, is estimated to be at least £7 million.

Commercial strategy

The NPfIT in England is the world's largest civilian IT project today and the first attempt to implement an integrated national healthcare solution, based on minimum standard specifications for patient records and supported by a dedicated national communication network and data base. It is a bold initiative and iSOFT intends to continue playing a significant part in helping to produce an efficient health service in the UK. Further details of iSOFT's commercial, contractual and potential for liability position within the NPfIT are available within the Financial Review on page 18.

In the short-term, delivery schedules and payment milestones are being revised in all regions, affecting most contracted parties and that process is on going. On 11 August 2006, iSOFT signed a Memorandum of Understanding with Computer Sciences Corporation ("CSC") confirming the schedule under which it will provide deliveries to CSC up to a value of £153 million in respect of the CSC agreement, including £36 million already delivered, subject to the satisfactory achievement of delivery milestones, with the opportunity to win additional NPfIT business in future through CSC in certain circumstances. Under this agreement, iSOFT has made a number of commitments in respect to the future development of its products for the NPfIT and the costs that it will bear for that work. CSC will have the right to take over the management of the development team in the event that iSOFT is unable to fulfil those obligations. However, the ownership of the Intellectual Property Rights (IPR) remain with iSOFT under all circumstances. This agreement offers greater certainty of cash flow to iSOFT since payments are tied to specific milestones tied for the most part to software incremental releases.

In international markets, the Group has a strong presence in Germany, The Netherlands, Spain and Asia Pacific, where we believe that market conditions are appropriate for selling our products, including LORENZO. We also believe that France and Italy will provide favourable environments in due course. Our primary focus is on the major markets of Western Europe and specific parts of Asia Pacific.

The United States represents more than half of the worldwide market for healthcare IT and is a tempting prospect, but our resources are insufficient at the current time to enable us to tackle such a large market directly without incurring excessive risk. Nevertheless we continue to keep a watching brief on this opportunity and to evaluate a number of partnership proposals.

Product development

LORENZO is iSOFT's flagship strategic offering and it is central to the Group's future. It is an integrated healthcare system, built using a modern services oriented architecture (SOA) and adopting web-based protocols. It is designed to be flexible, adaptable and will provide customers with easy operability and lower costs of ownership than any other healthcare IT product. That flexibility will enable customers to upgrade existing systems incrementally, phase and manage their investment resources and provide them with a low-risk, fully compatible upgrade path.

LORENZO comprises several layers of development. The technology layers - also packaged as Healthcare Studio - provide a framework within which both iSOFT and third-party systems can be retained by customers but enabled to communicate securely with newly installed LORENZO solution applications. Completed LORENZO functionality is now being tested in early adopter sites in Germany and Singapore. The subsequent development of individual user solution modules will follow after that.

We intend to begin delivering LORENZO functionality to users within the NPfIT before the end of 2007, and for individual solution modules to become available on a phased basis through 2008. We continue to apply substantial resources to the development of LORENZO, with much of that resource located in Chennai and Hyderabad in India, where the Group now has 1,454 employees.

Board representation

The Board has undergone substantial change in the past twelve months. Patrick Cryne stepped down as Non-executive Chairman in October 2005, at which time I was appointed to replace him, as explained in our half-year report. Colin Wall resigned from the Board on 3 April 2006.

Tim Whiston resigned as Chief Executive Officer on 14 June 2006. I have taken over the responsibilities of the Chief Executive until such time as we are able to appoint a suitable replacement.

The NPfIT in England is the world's largest civilian IT project today and the first attempt to implement an integrated national healthcare solution. It is a bold initiative and iSOFT intends to continue playing a significant part in helping to produce an efficient health service in the UK.

On 20 July 2006, the Group announced that it had commissioned an investigation into possible accounting irregularities. On 8 August 2006, the Board concluded that there are grounds for a more formal investigation and the Board deemed it appropriate to suspend Steve Graham, Group Commercial Director, pending the final outcome of a more formal investigation. One other employee has been put on special leave of absence. The other employees that appear to be involved have since left the Group. The results of the initial investigation have been presented to the FSA, who will be conducting the formal investigation.

Management and employees

I am pleased to report that we have been active in appointing new management to guide the Group. Bill Henry joined iSOFT on 28 June 2006 as Chief Operating Officer. He comes to the Group with extensive experience in leading organisational change at PeopleSoft and establishing strong professional services capability. His background in delivering and implementing advanced technology products and providing high-quality support for complex enterprise level projects will be relevant and important assets for the Group.

We have also appointed a new Group Programme Management Office Director, Chris Feeley. Chris has over 20 years of programme management experience in software and systems development and consulting services.

I am also pleased to welcome three new country Managing Directors - Peter Herrmann in Germany, Katrina Diaz in Spain and Tommy Soh Boon Boon in Asia. All three have deep experience in the industry and are already making significant contributions to their businesses.

This has been a very difficult and uncertain period for all employees and it is at times like this that their dedication, particularly in the face of widespread and sometimes misleading outside comment, is most appreciated. I am most grateful to them.

Outlook for 2007

At the present time, there remains some lack of certainty regarding future deliveries under England's NPfIT. Prospects in the international markets are more predictable, nevertheless we cannot give accurate guidance for 2007 revenues at the present time, although it is likely that the second half of the year will be stronger than the first.

The Group's annualised cost base at 30 April 2006 was around £209 million. After taking account of cost reduction action currently underway, we expect to reduce our total costs below that level in 2007 and to exit the year with an annualised cost base of not more than £185 million. The extent of the profitability of the Group remains dependent on a number of key commercial outcomes.

We expect a significant operating cash outflow during the current financial year, as some customer upfront payments unwind and due to one-time expenditure to reduce the cost base going forward. Nevertheless, the Group has funding arrangements in place with its banks which, subject to the uncertainties discussed in note 1, will help to ensure that it remains within the terms of its banking agreement throughout this period.

John Weston
Chairman and acting Chief Executive Officer
25 August 2006

iSOFT builds software applications for the healthcare market.

We are a leader in the provision of advanced application solutions in modern healthcare economies around the world. We are creating solutions that set a new standard in supporting co-operation between all those involved in healthcare delivery.

iSOFT has delivered applications to more than 8,000 healthcare units in 27 countries, including 1,800 hospitals and more than 6,200 family doctor practices.

iSOFT is developing and starting to deliver LORENZO, its latest generation product, which we believe is one of the most advanced healthcare IT systems in the world. LORENZO is based on a service oriented architecture (SOA), which makes it highly flexible, scalable and with low costs of maintenance and operation. LORENZO provides a low-risk, modular upgrade path for healthcare authorities.

LORENZO is a state of the art healthcare solution addressing fully the administrative and clinical information management requirements of citizens, patients and healthcare professionals. It is designed to help promote clinical and corporate governance, quality, efficiency and consent in healthcare, enhancing the experience for all participants. It provides growth potential and flexibility for the future.

LORENZO - One product, many solutions.

History of iSOFT
The business initially operated as part of the KPMG partnership under the trading name KPMG Health Systems. The business was subsequently bought out from KPMG in April 1998. On 19 July 2000, iSOFT Group plc achieved a full listing on the London Stock Exchange. The business has since continued to act as a consolidator in the healthcare applications market, and the principal milestones of its development are set out below.

2005 Acquisition of Novasoft Sanidad S.A.

2004 World-wide strategic alliance with Microsoft

Two principal contracts entered into to deliver software and services as part of the National Programme for IT (NPfIT)

2003 Merger with Torex plc

2002 Acquisition of Revive Group Limited

Acquisition of Paramedical Pty Limited

Acquisition of healthcare business of Northgate Information Solutions plc

Microsoft global launch partner, and the only European software partner for the Windows XP Tablet PC launch

2001 Dedicated offshore development business established in Chennai, India

Acquisition of ACT Medisys Limited

Acquisition of Eclipsys Limited and Eclipsys Pty Limited

2000 Full listing on London Stock Exchange

1999 Only Microsoft SQL Server 7.0 launch partner in UK health

Acquisition of CSC's Australian healthcare systems business

1998 MBO by senior executives to create iSOFT

1994 Healthcare information systems business founded within KPMG

Strategic objectives
iSOFT's aim is to become the global leader in the development and distribution of comprehensive and modern software applications for the healthcare sector. These applications are a core component of modern healthcare IT investment programmes.

iSOFT was among the first to predict the nature and scope of the healthcare reform now being seen in many of the world's modern economies and the important role that information technology has to play in supporting this reform agenda. The demand for modern information management systems is growing and the Group is well placed to participate as an international vendor.

Business strategy
A clearly defined business strategy accompanied iSOFT's listing on the London Stock Exchange in 2000. Consistent with this strategy, management has from the outset focused on exploiting the best technology available to develop software application systems that address the administrative and clinical information management needs of healthcare provider organisations. These needs include administrative tasks such as appointment booking, resource scheduling, clinical information management and electronic patient record creation and exchange.

As the demand for advanced healthcare applications has developed, both in the UK and internationally, iSOFT has established a reputation for anticipating and planning for the emerging requirements of modern healthcare provision. Management's strategy for developing the Group's global capability has been focussed on leveraging the extensive existing product portfolio by incorporating international best practice into new strategic product offerings such as LORENZO. The Group seeks to combine this expertise with the latest relevant and proven technologies to create the most competitive application offerings whilst minimising technology risk.

The following diagram illustrates the success achieved by iSOFT in building successive generations of software, by predicting and then targeting the evolving market requirements, whilst also harnessing the best available technology at the time.

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Source: Management

iSOFT recognised that large-scale procurement needs would favour international vendors of substance, often operating in consortia. iSOFT has therefore built business alliances and, where appropriate, made strategic acquisitions which equip the Group to accommodate local requirements, whilst delivering solutions that reflect international best practice. Management will continue to forge alliances and partnerships and to evaluate opportunities by which entry into new geographic markets can be accelerated.

Market drivers
Modern economies face a number of common challenges in healthcare provision.

The rising cost of healthcare - An ageing population, rising prescription drug costs, malpractice claims, government regulation and advances in medicine and diagnostic techniques have increased costs associated with healthcare delivery.

Increasing patient-driven demand - A rise in healthcare consumerism, with patients demanding greater access to safe, timely, quality care and, where direct payment is required, competitive pricing.

Reduced funding - Changes in funding models, typically resulting in a reduction in the level of funding available, are compelling drivers for increasing efficiency, particularly in clinical and administrative workflows.

Increasing regulation - As new and more rigorous clinical governance and mandatory reporting regulations are introduced, providers continue to assess and upgrade IT systems to achieve compliance.

These drivers are consistent throughout all modern healthcare economies, thereby creating a significant global market for integrated IT applications, systems and solutions. Individual economies are re-engineering their domestic healthcare systems at different rates, with the UK National Health Service leading the way. It is now widely accepted that addressing the needs of individual healthcare units on a standalone basis will not suffice if meaningful improvements are to be achieved. More fundamental structural reform is required with care processes delivered by a variety of healthcare organisations and professionals acting collaboratively and in increasingly formalised relationships.

Investment in a new generation of information management systems, which permit the scheduling of resources and the communication of comprehensive patient information across traditional organisational boundaries, is now recognised as critical to supporting the transformation of healthcare provision.

iSOFT's broad and technologically capable product offering and large number of reference sites creates a strong competitive position in the global healthcare IT market.

Market size
The international healthcare information technology market, including software, hardware and services, was estimated to be worth just over £10 billion in 2005. Frost & Sullivan forecast that this figure will reach £17 billion by 2010, giving a compound annual growth rate (CAGR) of around 11%. The size and growth rates for each major region are estimated as follows:

(£m)	EMEA	Americas	APAC	Total
Market size 2005	1,996	6,882	1,322	**10,201**
% CAGR	10.6%	10.7%	12.1%	**10.9%**
Est. Market size 2010	3,303	11,443	2,340	**17,086**

Source: Frost & Sullivan - Global Market Sizing, Analysis of Healthcare IT Markets, March 2006

EMEA: Europe (including Scandinavia), Middle East and Africa
Americas: United States and Canada, Central and South America
APAC: Asia Pacific, including Australia and New Zealand.

The Group believes that healthcare information software represents approximately 40% of the above market.

International competition
Given the historic fragmentation of the healthcare systems market, the competitive landscape in each geographic market tends to be dominated by small, country-specific vendors ahead of market reform (e.g. the NPfIT in England). In line with the market's move towards more comprehensive integrated solutions, sub-scale local vendors are increasingly being squeezed out of the market in favour of a small number of international vendors with the reputation and investment capacity to deliver against integrated national requirements.

iSOFT's broad and technologically capable product offering and large number of reference sites creates a strong competitive position in the global healthcare IT market. iSOFT's success in recent high-profile procurements has confirmed the strength of the Company's product and, in particular, that of the LORENZO strategic application roadmap. iSOFT is today a leading supplier of technologically advanced healthcare software applications in the international market, due to the Company's significant installed international base, its market-leading LORENZO solution roadmap, participation in major market reform projects and key early adopter reference sites.

Barriers to market entry
iSOFT software has already been deployed in a large number of trusts and healthcare organisations. To replace these installed systems with alternative systems and applications would be expensive, time-consuming and would potentially lead to a loss of functionality.

The LORENZO roadmap will provide the most advanced and only fully integrated software solution capable of seamlessly meeting both the functional and strategic capabilities sought by the NPfIT in England and other large-scale healthcare procurement organisations. Given the broad conservatism of the healthcare market, any major new investment must support the phased migration of existing legacy systems, thereby reducing the risks and cost associated with new IT investments.

In summary, the structural growth market for international healthcare IT, combined with iSOFT's well established international position and market-leading LORENZO solution, provides a basis for solid growth over the coming years.

A Patient's Journey

Patient: Scott Waldron
DOB: 09/06/1978
Symptoms: Tiredness, thirst, lethargy, blurred vision

Image removed for filing purposes.
Please visit www.isoftplc.com/investor for complete version.

The year ended 30 April 2006 was a challenging period for the Group...

Operationally we have seen progress in developing some of our international markets, however, this has been overshadowed by the delays and complexities surrounding the National Programme for IT (NPfIT) in England.

LORENZO in action
01

Scott Waldron is unwell but can't work out why. Feeling tired and thirsty all the time, he's been finding it difficult to get through a full day's work. Tender loving care makes a difference of course, but it's not the full remedy. He's reached a stage where there's no alternative but to call an ambulance.

Continued on page 24.

Overview

The year ended 30 April 2006 was a challenging period for the Group. Operationally we have seen progress in developing some of our international markets, however, this has been overshadowed by delays and complexities surrounding the NPfIT in England, which severely affected financial performance in the second half of the year.

Accounting policies

The Group's financial statements have been prepared following International Financial Reporting Standards ("IFRS") for the first time, implementing a change in revenue recognition policy announced in June 2006 and adopting a new treatment of certain contract financing activities.

The Group reported under the new IFRS regulations for the first time when it announced its unaudited results for the half year to 31 October 2005. Results for the full year ended 30 April 2006 have been prepared and fully audited under IFRS for the first time and a reconciliation between previous standards and IFRS is included in note 31 to the accounts. The adjustment relating to contract financing obligations was not reflected in the unaudited half year results.

The key differences that affect iSOFT are as follows:

- **Development expenditure** - the Group previously expensed all development expenditure as incurred, under UK GAAP. IFRS requires that, providing certain criteria are met, such expenditure should be capitalised and amortised over its useful life commencing from the date at which the asset is available for use.
- **Goodwill amortisation** - the Group previously amortised goodwill on a straight-line basis over its estimated useful economic life of up to 20 years under UK GAAP. Under IFRS, goodwill is not amortised, but the Group is required to conduct a full impairment review at each balance sheet date, or more frequently, as appropriate. Any impairment charge is recorded in the Income Statement.
- **Share-based payments** - under UK GAAP the cost of share options was based on the difference between exercise price and the market value of options at their date of grant. Since grants made under the Group's share option schemes have normally been made at an exercise price equal to the market value, they have not normally resulted in any charge to the Income Statement. Under IFRS the Group is required to recognise the fair value of all share options granted since 7 November 2002 that have not fully vested at 1 May 2005, using an option pricing model, and record a charge in the income statement.
- **Contract financing obligations** - formerly contract financing obligations were considered non-recourse and were therefore not recognised in the balance sheet. It is now considered appropriate to recognise these obligations as a balance sheet liability. At the time of reporting the unaudited results for the half year to 31 October 2005 the Group, in consultation with its auditors, Deloitte & Touche LLP, recognised the liabilities in respect of £6.1 million of the Group's contract financing activities at 30 April 2005. In reporting the results for the year ended 30 April 2006, following a detailed review of contract financing activities as part of their audit, Deloitte & Touche LLP has advised the Company that the liabilities in respect of all of the contract financing arrangements be recognised on the balance sheet. This increases the liabilities recorded at 30 April 2006 by £58 million (to a total of £62 million) and increases the finance costs for the year then ended, as detailed in note 31.

The Board considers that a change is taking place in the nature of the Group's business, with an increasing proportion of sales being derived from larger, more complex and long-term contracts requiring a period of implementation. At the same time, a much smaller proportion of upfront payments are now available in the early stage of contracts. Consequently, the Board announced on 8 June 2006 that it had reviewed the revenue recognition policy and, as a result of that review, decided that a change in policy is appropriate.

Licence revenues were previously recognised on delivery of the software product to the customer but will now typically be recognised over the period of implementation, which may range from a few months to a number of years from contract signature, or over the full duration of the contract in the case of bundled services. Full details of the background and implementation of the new policy are contained in note 2 to the accounts.

The change in revenue recognition policy has been implemented by way of a prior year adjustment, as required by IFRS 1. This requires the Group to provide comparable figures prepared on a consistent basis for the financial year ended 30 April 2005. A reconciliation is contained in the notes to the accounts and involves reversing revenues of £76 million, £54 million and £44 million which were recognised in the years ended 30 April 2005, 2004 and 2003 or earlier, respectively. Those revenues will now be recognised in future years in accordance with the provisions of the new accounting policy.

As a result of work carried out by the auditors to review the adjustment of past revenues, possible accounting irregularities have come to light which have been independently investigated by Deloitte & Touche LLP and Eversheds LLP. The investigation concerns several contracts where revenue may not have been recognised in the financial years ended 30 April 2004 and 2005 in accordance with the accounting policy in force at that time. The Company's investigation is complete and a more formal investigation by the FSA is underway.

In the year to 30 April 2006, revenue for the Group increased 8.4%, from £186.1 million to £201.7 million and the underlying organic growth of the Group during the year was therefore 6.0%.

Trading results
In the year to 30 April 2006, revenue for the Group increased 8.4%, from £186.1 million to £201.7 million. The acquisition of Novasoft Sanidad S.A. in Spain in October 2005 contributed revenue of £4.4 million and the underlying organic growth of the Group during the year was therefore 6.0%.

Operating profit before goodwill impairment was £13.3 million compared with £8.5 million for the previous year. The operating margin of 6.6% reflects a substantial level of expenditure on maintaining existing products and developing the LORENZO platform. At the current time the Group is continuing to maintain nearly 30 core products within the Group's intellectual property portfolio whilst at the same time developing LORENZO. In 2006, the cost of product development and support, net of the amounts capitalised in accordance with IFRS, was £22.6 million, which compares with £15.9 million in the previous year. This is an essential commitment to maintaining the Group's position as a leading healthcare software product and services company. Other operational costs remain too high for the revised level of revenue generation and action is being taken to reduce the cost base.

Information is also contained below relating to the status of NPfIT in England. This outlines a number of difficulties with regards to the progress of contracts during the year, including an exchange of formal correspondence alleging material contractual breach.

We have continued to invest in our dedicated Product Development Centre in Chennai (India), and the Solution Centre in Hyderabad (India). The number of application specialists in India grew over the course of the year from 956 to 1,454, representing approximately 50% of the total headcount of the Group. Investment in the Product Development Centre is expected to peak in the year to 30 April 2007. We anticipate a reduction in the number of core products and variants being maintained as these are replaced over the medium term by the LORENZO product suite.

The level of Group profitability is clearly below our medium-term expectations and, therefore, to improve efficiency and streamline the cost base, we have embarked on a programme to reduce costs in all areas of the business, particularly indirect and non-billable costs and including Group overheads. At 30 April 2006 the annualised total cost run rate was £209 million, the cost base having risen though the year as a result of increased costs of product development and support for the NPfIT.

Actions already in hand include a reduction in headcount of at least 150 employees in the UK, including a significant reduction in Group overheads. There will be further headcount reductions in parts of our international operations and a broad review of non-staff costs is on-going throughout the business. The Group is also seeking to dispose of non-core assets, including freehold properties. All of the above actions are anticipated to reduce the cost base significantly in the current financial year and we expect to exit the year at an annualised total cost run rate of not more than £185 million. Actions currently in hand are expected to give rise to a one-off cost in the year to 30 April 2007 of at least £7 million and longer-term actions may require additional one-time costs.

Operating performance

The iSOFT strategy is to develop and promote a common software application offering that is adaptable for all markets and this continues to provide a focal point for our operational and marketing activities. The directors believe that the LORENZO application offering is being positively received by customers. Product roll out is taking place at early adopter sites in Germany and Singapore that will be testing and implementing the product during the 2006 calendar year and we expect to see the commencement of LORENZO user functionality in the United Kingdom from late 2007 onwards. The Group's mainstream activities in the United Kingdom, Europe and Asia Pacific therefore continue to sell and support the existing product portfolio, aided by the pull of the LORENZO product roadmap.

Our activities in the United Kingdom remain dominated by the provision of services around a strong installed base of existing clients. Work under the NPfIT is building up, with the initial delivery of existing products such as iSOFT Patient Manager (i.PM) and iSOFT Clinical Manager (i.CM) into many health trusts. Existing systems are being packaged with core elements of LORENZO technology, enabling those systems to communicate with the NHS National Data Spine and the new national network. Existing applications will be upgraded to LORENZO functionality from late 2007 onwards. This will provide customers with a phased, low-risk migration of their systems.

Subsequent to the year end, the Group has reached an agreement whereby the iSOFT National Programme software will be installed in seven hospitals in the London and Southern regions. Additionally, iSOFT has reached agreement with CSC in relation to rescheduling payment milestones for the remainder of the NPfIT in England.

In Europe and Asia we have delivered LORENZO into early adopter sites at the University Hospital Aachen and the Robert Bosch hospital in Germany and at SingHealth, the largest cluster of public healthcare institutions in Singapore. The systems are being vigorously tested for scalability and functionality and we are making solid and satisfactory progress. In Australia, iSOFT won a major order to supply the State of Victoria HealthSmart Patient and Management System over ten years, reinforcing our presence in that region.

In Europe, the Group acquired Novasoft Sanidad S.A. during the year, providing a base of operations in Spain ahead of the increase that is expected in regional public tender activity. This adds to our strong existing presence in The Netherlands and Germany and the opportunities that we are considering in France and Italy. We believe that many of the major countries in Western Europe will introduce standardisation in the provision of healthcare systems in the coming years, in order to reduce their costs and improve services. This represents a significant opportunity for iSOFT in the future, benefiting from its experience in the United Kingdom.

Interest

Net interest in the year was £5.6 million (2005: £6.3 million). This reflects the benefit of high levels of upfront payments from customers received in the previous financial year, offset by the increase in finance charges relating to contract financing agreements. The net interest charge comprises:

	2006 £'000	2005 £'000
Interest paid on term loan	(2,338)	(3,087)
Interest paid on overdrafts	(1,252)	(856)
Facility non-utilisation and margin on LOCs	(608)	(278)
Contract funding finance charges	(3,726)	(2,558)
Other finance costs	(824)	(755)
Total finance costs	(8,748)	(7,534)
Investment revenue	3,099	1,254
Net interest charge	(5,649)	(6,280)

The Group's mainstream activities in the United Kingdom, Europe and Asia Pacific continue to sell and support the existing product portfolio, aided by the pull of the LORENZO product roadmap.

Goodwill impairment
At 30 April 2006 the Group carried goodwill with a gross book value of £495.5 million, of which £404.2 million derived from the acquisition of Torex. The carrying value of this goodwill has been reviewed by the directors in accordance with IFRS. Based on the Group's anticipated future cash flows, the Board has decided that it would be appropriate to recognise an impairment charge of £351.4 million, reducing the carrying value of goodwill on the balance sheet to £144.1 million. The key assumptions and estimates involved in calculating the discounted cash flows used to derive this impairment are explained in note 11.

Taxation
The current tax charge in 2005 remains as it was under the old accounting policy, since the effect of the prior year adjustment for tax purposes is treated as a current year item. The 2006 current tax credit of £6.4 million reflects the benefit of carrying back losses arising from the prior year adjustment.

The tax charge in 2005 has been restated to incorporate the tax effect of the revised accounting policy for revenue recognition which impacts deferred tax only. However, in the current circumstances the Group is obliged to write off a substantial portion of the deferred tax asset created, under the provisions of IFRS 1, at 30 April 2005. The write off of the deferred tax assets has resulted in an overall tax charge of £38.4 million for the year ended 30 April 2006.

(Loss)/earnings per share
The basic loss per share was 165.1p (2005: earnings per share of 2.6p).

Risk factors
The Group's financial condition and results of operations could be materially affected by a number of internal or external events or factors. These risks are broadly categorised under the following headings:

- Market-related risks
- The competitive position of the Group
- The National Programme for IT in England
- The financial position of the Group

Additional risks not currently known to the Group, or risks that we currently regard as immaterial, could have a material adverse effect on the Group's financial condition or the results of operations. These may be considered either as downside risk - the risk that something can go wrong and result in a financial loss or financial exposure for the Group - or volatility risk. Volatility risk is the risk associated with uncertainty, which means that there may be an opportunity for financial gain as well as financial loss.

Market-related risk
iSOFT operates in the international healthcare IT market. The use of IT systems in healthcare provision remains comparatively low compared with other industries. US healthcare spending is already high as a percentage of gross domestic product (GDP), but spending is rising rapidly in many other developed economies and represents an increasing proportion of government spending, especially due to the ageing profile of the population. Improving the efficiency and effectiveness of healthcare provision is therefore a priority in many economies and healthcare IT spending is increasing at rates between 6-9% per annum. The Group therefore believes that it is operating in a market with above-average growth prospects into the foreseeable future.

Political or social risk: the Group operates mainly in Western Europe, Asia, Australia and New Zealand and believes that the risks of disruption to its operations in these regions is comparatively small.

Environmental or other regulatory risk: the Group does not operate in a significantly hazardous industry, nevertheless it takes reasonable steps to ensure that it complies with regulations relating to the disposal and recycling of computer equipment, the control of water discharge and air emissions and that it minimises paper use.

Competitive position

Customer dependence: the Group has a large number of individual customers. The Group recorded revenues of £35.5 million under England's National Programme for IT in the year ended 30 April 2006, representing 18% of total revenues, although this was mainly in respect of two customers, each of which was a regional prime contractor under that project. Were the Group not to be involved in NPfIT it would have a material adverse impact on the Group's revenues and profits. To manage the risk the Group continues to apply significant focus and resource to ensuring that the requirements of this complex programme are fulfilled. Sales to the next largest customer amounted to £3.5 million.

Technology and intellectual property rights: the Group develops and installs administrative and clinical healthcare software systems. Its future financial success depends on continuing to develop systems with better functionality and lower costs of ownership for its customers. iSOFT has a history of developing advanced products since its launch in 1998 and the current development of LORENZO is expected to maintain the Group's technology lead. However, the Group is at risk if its systems do not function properly, if competitors are able to develop similar technology independently and more quickly, and if the Group does not adequately protect its intellectual property or does not take steps to prevent the misappropriation or infringement of its intellectual property.

Key employees: the Group's success depends on recruiting and retaining key management, development, support and sales staff. Given the current circumstance surrounding the Group, the risk of the Group not being able to retain and recruit high calibre employees is increased. The Group therefore employs a range of policies and practices to incentivise, motivate and retain key employees, but the Group is at risk if it does not take adequate steps to retain such employees.

Reputational: The recent phase of events and publicity surrounding iSOFT, including the profits warnings in January and April 2006, and the change in revenue recognition policy has had an adverse impact on the reputation of iSOFT with regard to its products and its financial structure. These concerns surrounding iSOFT have had an impact on the propensity of customers to enter into contracts with the Group. In this regard the Group has revised its bank facilities, providing a period of stability during which it can consider and implement a suitable long term financial strategy. The Group continues to focus on delivery under its existing contracts, demonstrating the quality of its software.

The National Programme for IT in England

Through its subsidiary company iSOFT plc, the Company entered into two principal contracts ("the Contracts") to deliver software and services as part of the National Programme for IT (NPfIT). On 2 April 2004, the Company signed a contract with Accenture (UK) Limited ("Accenture"), a Local Service Provider ("LSP"), to deliver software and services to the North-East and East Midlands clusters (the "Accenture Agreement"). On 28 April 2004, the Company signed a contract with CSC Computer Sciences Limited ("CSC"), an LSP, to deliver software and services to the North-West and West Midlands cluster (the "CSC Agreement").

The functional requirements established at the outset by the National Programme for Information Technology in the NHS are for software with the same overall functionality to be delivered by Accenture and CSC. However, the contractual frameworks used by Accenture and CSC to pass these functional requirements on to the Company differ, in particular with respect to the requirements due to be delivered during different phases of the NPfIT, the responsibility for testing and acceptance, the payment profiles and penalties for delays.

iSOFT has a history of developing advanced products since its launch in 1998 and the current development of LORENZO is expected to maintain the Group's technology lead.

The Contracts provided for deliveries under the initial phases of the NPfIT to be satisfied using existing software that had already been successfully deployed to NHS Trusts and for later phases to be satisfied using a combination of existing products and iSOFT's next generation product - LORENZO.

The NPfIT is an ambitious programme to deliver integrated electronic patient records nationally. The creation of a national electronic patient record requires departmental, patient administration and general practitioner software to communicate on a national basis and on a scale that has not previously been attempted anywhere in the world. It is a ground-breaking programme and there are a number of challenges facing the programme, most of which were summarised in the recent National Audit Office (NAO) report published on 16 June 2006.

Within the NHS, hospitals and general practice surgeries vary enormously in the sophistication and maturity of their use of IT and their methods of working. The functional requirements which the software has to satisfy are also open to a number of different interpretations, which has led to disagreements with the LSPs about whether software meets the functional requirements. Therefore, rather than one software solution for all, differing software solutions have been required. iSOFT has responded to the LSPs by developing an incremental approach to the development of software which has required extra effort involving the diversion of resources from the primary software development effort.

iSOFT is working with CSC and Accenture to deal with these challenges, prioritise development and manage delivery in a collaborative way. iSOFT has expanded its product development resources in India at a rapid rate, both to complete its future product LORENZO and to support the needs of its existing product base, especially arising from specification changes demanded by individual hospital and GP Trusts in the UK. This rapid expansion in development resources has caused some processes and resources to be stretched, resulting in delivery delays, including delays in resolving faults within the required contracted expected timescales. The Company is taking action to strengthen both management and processes in this area, particularly in project management.

The Company has taken, and continues to take, additional steps to improve quality standards and control, including more rigorous and intense testing of, and rectification to, the Company's existing in-use products, in response to NPfIT customer requirements. CfH, CSC and Accenture have conducted on-site reviews of the Company's product development activities and recommended additional processes and procedures, whilst confirming that the product is what is strategically required.

A number of difficulties experienced on the programme are outside the Company's control, but some have resulted in formal correspondence being exchanged between the Company and both Accenture and CSC, alleging material contractual breach by the Company. The Company has denied all of the disputed allegations of breach. To date, none of this correspondence has resulted in notice to terminate the Contracts being given, or any formal claims being made. The Company has registered claims for additional work done outside the scope of the basic contracts.

The Company has taken legal advice from its lawyers, Ashurst, on these matters. However, due to the complexity and nature of the contracts there are differences in the interpretation of functional requirements and their delivery and, in the absence of any formal claim, it is not possible to establish the likelihood nor the quantum of any potential liability. Having reviewed the legal advice the Board has taken the view that, in view of the complexity of the potential claims and counter claims, a commercial settlement is the most likely outcome. Given this position and the existence of a net receivable due for contractual services performed, no specific provision has been made in relation to this matter.

Were any claims to be brought against the Company, the Board would continue to dispute the liabilities and would defend its position vigorously. Whilst no claims have been made, claims are contractually limited to (1) in respect of Accenture, £5 million per annum for liquidated damages by way of delay deductions and otherwise to £15 million per annum in aggregate: and (2) in respect of CSC, £4 million per annum for liquidated damages by way of delay deductions and otherwise to £18 million per annum in aggregate, with an overall cap of £50 million.

On 11 August 2006, iSOFT signed a Memorandum of Understanding (MOU) with CSC confirming the schedule under which it will provide deliveries to CSC up to a value of £153 million in respect of the CSC Agreement including £36 million already delivered, subject to the satisfactory achievement of delivery milestones, with the opportunity to win additional NPfIT business in future through CSC in certain circumstances. Under this agreement, iSOFT has made a number of commitments with respect to the future development of its products for the NPfIT and the costs that it will bear for that work. CSC will have the right to take over the management of the development team in the event that iSOFT is unable to fulfil those obligations with respect to the future development. However the rights to the IPR remain with iSOFT under all circumstances. This agreement offers greater certainty of cash flow to iSOFT as payments are tied to specific milestones tied for the most part to software incremental releases.

Financial Position

Liquidity: The Group's overall objective is to ensure that it is at all times able to meet its financial commitments as and when they fall due. Note 1 outlines a number of uncertainties and assumptions which could impact this objective. To this end, and to the extent possible, surplus funds are collected centrally and managed to retain flexibility, whilst ensuring reasonable interest receipts and minimal credit risk. The Group has renegotiated the maturity of all of its bank borrowing facilities in August 2006, to ensure that it has sufficient liquidity. The Group's bank borrowing facilities mature in November 2007.

Funding and cash flow: the Group may require capital to sustain or expand its business in future. At present the Group has established sources such as cash flow from operations, bank debt, equity or the realisation of non-core assets and believes that the sources of funding currently available will be sufficient to fund its operations. If the Group's plans or assumptions regarding its funding requirements change, it may need to seek other sources of financing such as additional lines of credit with commercial banks or institutions, to renegotiate existing bank facilities or seek additional equity contributions. The renegotiated facilities carry stepped interest which is explained further below in revision of bank facilities. The Group intends to use the period of stability provided by the revised facilities to consider and execute a longer term financial strategy.

Investigations into accounting irregularities: As detailed in note 1 to the accounts the Company has commenced an investigation into possible accounting irregularities. The initial investigation completed on 7 August 2006 concluded that there were grounds for a more formal investigation, which is being conducted by the FSA. It is not possible for the Board to conclude what implications, if any, may arise from the conclusion of the investigation.

The Group has renegotiated the maturity of all of its bank borrowing facilities in August 2006, to ensure that it has sufficient liquidity.

Pension schemes: the Group operates both defined benefit and defined contribution pension plans, the majority of which are in the United Kingdom. The UK defined benefit scheme was in deficit by £10.7 million at 30 April 2006. Deterioration in asset prices or long-term interest rates could lead to *an increase in the deficit or give rise to an additional* funding requirement.

Volatility: There are a number of additional volatility risks concerning the valuation of assets and liabilities, currency fluctuations and interest rate exposures, which are set out in note 19 to the financial statements.

Balance sheet and funding

At 30 April 2006 the Group had net loans and overdrafts of £41.8 million (2005: £1.6 million) as detailed in note 19, including contract financing arrangements, with cash and cash equivalents of £77.5 million (2005: £110.1 million). Cash generation in the year was weak. Cash generated from operations amounted to only £1.9 million (2005: £92.4 million), reflecting the operating difficulties of the business and the net impact of unwinding customer upfront payments received in previous financial years.

The reduction in net cash, which is summarised below, also reflected increased tax payments of £17.8 million in the year due to the level of profits reported in the year ended 30 April 2005, and timing differences due to a change of year-end in the Netherlands. In addition, the Group paid the cash element of the purchase of Novasoft Sanidad S.A. in Spain of £6.1million and capital expenditure of £6.5 million, this includes capitalised development costs of £0.7 million, which was higher than in the previous year due to the establishment of the Solution Centre in Hyderabad and other IT infrastructure improvements. The cash outflow in the year was as follows:

	£m
Cash generated by operations	1.9
Income taxes paid	(17.8)
Net interest paid	(2.2)
Purchase of fixed assets and capitalised costs	(6.5)
Purchase of own shares	(3.8)
Acquisition of subsidiaries	(8.5)
Dividends paid	(6.0)
Issue of new shares	7.0
Net loans raised	3.2
Other	0.1
Reduction in cash balance	(32.6)

At 30 April 2006 the Group had banking facilities which amounted in total to £144 million, comprising a term loan of £39 million and a revolving credit facility of £105 million. At the balance sheet date those facilities were almost fully utilised. The term loan was fully drawn at the balance sheet date. Cash drawings of £16 million, together with letters of credit and other guarantees amounting to £88 million, fully utilised all but £0.8 million of the revolving credit facility. However, the Group had cash and cash equivalents amounting to £77.5 million and therefore had adequate resources at that date. Cash deposits are managed within the Group to retain flexibility whilst ensuring reasonable interest receipts and minimal credit risk.

Additionally, to assist with the funding of the business during a period of high development spending, the Group previously utilised contract financing arrangements. Amounts payable to third-party providers of this funding from the proceeds of collections from customers amounted at the balance sheet date to £62.0 million (2005: £56.7 million) and have been included on balance sheet. The Group has ceased using third-party non-recourse contract financing arrangements because of the high relative cost.

Given the anticipated further impact on cash flows of the unwinding of customer prepayments, delays in payment from the NPfIT and the generally lower levels of upfront payments available from customers, the Group has established agreed revised bank facilities and related covenants, details of which are set out below.

Revision of bank facilities
Following the repayment of £3 million of term loans in May 2006, in August 2006, the Group secured the revision of £141 million of facilities and an additional facility of £25 million, which is conditional. The facilities following the revision include:

- £105 million revolving credit facility;
- £36 million term loan facility; and
- £25 million facility, available following disposal of non-core assets.

The maturity date of the above facilities is 14 November 2007. The financial terms have also been amended to better reflect the Group's revised business expectations and revenue recognition policies.

Warrants over 3.7% of the issued Share Capital of the business are to be granted to the lenders with an exercise price of 10 pence per share. The warrants will be exercisable between issue and 36 months from the date of the revision of the facilities, however any shares acquired on exercise cannot be sold until six months following the date of the revision of the facilities. An exit fee of £15 million is payable at the end of the facility, on refinancing or on change of control of the Company, and if the warrants are not issued prior to 31 October 2006.

If the warrants are issued prior to 31 October 2006 then no exit fee is payable. The issue of these warrants will require shareholder approval which will be sought at the AGM. Additionally, further fees are payable on facilities outstanding post 31 December 2006. These additional fees are payable at the end of the facility term or, if earlier, at the date of any refinancing of the facilities. The fees, calculated on the total facility available, represent PIK interest from 1 January 2007 of 5.0% per annum for the three months to 31 March 2007, 7.5% per annum for the three months to 30 June 2007; and 10% per annum thereafter.

The costs of the revision of the banking facilities are not included in the financial statements for the year ended 30 April 2006. Such costs are estimated to amount to £1.2 million in cash refinancing charges, the write off of £0.6 million in unamortised fees relating to the old terms, and professional fees of approximately £1.0 million. The cost of interest will also increase in accordance with the revised margins which range from 200-450 basis points over LIBOR.

The new terms will provide the Group with a period of stability during which the corporate finance strategy of the Group can be considered and executed as required by the banking agreements.

Details of the revised banking facilities are set out in note 19 to the accounts.

Foreign currency
Foreign currency transactional exposure is monitored on an ongoing basis and is managed using natural hedges where possible. Where natural hedges for economic exposures are not available, a mixture of non-deliverable forward contracts and currency options are utilised to hedge the Group's exposures.

Working capital
The Group's working capital (defined as inventories and trade and other receivables less trade and other payables, excluding corporation tax recoverable and deferred consideration) amounted to £(87.4) million at 30 April 2006, compared with £(107.7) million at the end of the previous financial year. As a result of the change in revenue recognition accounting policy that has been introduced, creditor balances include £96.8 million for deferred income, including upfront payments made by customers in previous financial years. The Group expects to need significant additional working capital facilities over the next two years to fund operating costs as these upfront payments unwind.

The new banking terms will provide the Group with a period of stability during which the corporate finance strategy of the Group can be considered and executed.

Trade receivables at 30 April 2006 amounted to £34.4 million, representing 75 days' of sales outstanding, compared with 67 days at the end of the previous financial year, on a comparable restated basis.

Acquisitions

In October 2005 the Group acquired 100% of the share capital of Novasoft Sanidad S.A. for consideration of up to EUR 15.6 million. The company, based in Malaga, is a leading provider of healthcare applications in Spain, specialising in the provision of hospital information systems and associated services.

The initial consideration of EUR 12 million comprised EUR 9 million in cash and the issue of 470,199 iSOFT ordinary shares. Further consideration of up to EUR 3.6 million may be payable if certain financial targets are certified as having been achieved in the period to 28 February 2006.

Pensions

The Group operates a mixture of defined benefit and defined contribution pension schemes, the former having been acquired as part of the merger with Torex.

The Torex Medical Systems defined benefit scheme was closed to new members in April 2000. This pension scheme is accounted for in accordance with IAS 19. At the balance sheet date, the IAS 19 deficit in respect of the scheme was £10.7 million, which is recorded in the accounts with a corresponding deferred tax asset of £3.2 million.

As part of an agreement with the trustees of the scheme to reduce the deficit, annual payments to the scheme have been increased from £0.7 million in the year to 30 April 2006 to £1.3 million in the year to 30 April 2007 and beyond.

Dividends

During the year an interim dividend of 0.8p per share was paid in respect of the year ended 30 April 2006. Following the impairment charge recognised against the carrying value of investments in April 2006, the Company does not have retained distributable reserves from which to pay dividends to holders of ordinary shares and therefore is not able to pay a final dividend for the year ended 30 April 2006. The Board intends to evaluate the opportunities for altering its existing capital structure in order to address the distributable reserves deficit, but future dividends will only be paid as and when the Board considers that the Company has adequate resources.

G James

Gavin James
Group Finance Director
25 August 2006

Image removed for filing purposes.
Please visit www.isoftplc.com/investor for complete version.

The Group develops and implements market leading software applications for healthcare provider organisations.

The directors present their annual report and the audited financial statements of the Company and the Group for the year ended 30 April 2006.

02

On arriving, the paramedics assess Scott's condition. They notice he is extremely breathless and that he has sweet-smelling breath. They suspect Scott is suffering from diabetic ketoacidosis, an illness that can prove fatal if left untreated. One paramedic performs a blood sugar test and the results show Scott has extremely high blood sugar levels.

Using iSOFT's LORENZO solution on a tablet PC, a paramedic inputs details of Scott's condition and alerts the local hospital's emergency department to warn staff that a new patient will be arriving soon.

Continued on page 30.

Principal activities

The Group licences and implements market leading software applications for healthcare provider organisations. It provides solution design and development, installation, system configuration, training and customer support services in respect of its applications.

Business review and future developments

The performance of the business during the year and a review of expected future developments are set out in the Report of the Chairman and Chief Executive Officer on page 2, and the Financial Review on page 13. The Group's Corporate Social Responsibility policies in respect of employees and the environment are set out on pages 41 to 43. Key Performance Indicators are set out on page 128.

Results and dividends

The results of the Group are set out in the Consolidated Income Statement. In view of the decision to change the Group's accounting policy for revenue recognition and the recognition of a substantial impairment charge against the carrying value of investments in subsidiaries the Company has no distributable reserves from which to pay a final dividend for the year ended 30 April 2006. The Company paid an interim dividend of 0.80p per share and that is the total paid for the financial year (2005: 2.57p) The Group made a loss for the financial year of £382.2m million (2005: profit of £5.9 million). The Group intends to evaluate the opportunities for altering its existing capital structure to deal with its distributable reserves deficit.

Directors

The directors of the Company at the balance sheet date are shown below:

John Weston CBE (55), Chairman, was appointed to the Board as Non-executive Chairman on 19 October 2005. Following the resignation of Tim Whiston on 14 June 2006, he has also assumed the duties of the Chief Executive Officer until a suitable replacement is appointed. John Weston was formerly Chief Executive of British Aerospace plc from 1998 to 2002 and spent more than 30 years with that company in a variety of senior management positions. He is also Non-executive Chairman of Spirent Communications plc and Dublin-based Acra Controls, and a member of the President's Committee of the CBI.

Tim Whiston (38), Chief Executive Officer, joined the business as Finance Director in August 1997 and was subsequently appointed to the Board of iSOFT Group plc on 14 April 2000. He took on the role of Chief Executive Officer on 2 February 2004. On 14 June 2006, Tim Whiston resigned as Chief Executive Officer and as a director of the Company.

Steve Graham (42), Group Commercial Director, joined KPMG in 1987 and was made a partner of KPMG Health Systems in 1994. He was part of the original management team of iSOFT when it was founded in 1998 and was appointed to the Board of iSOFT Group plc on 28 April 1999. On 20 July 2006, the Company announced that it had commissioned an investigation into possible accounting irregularities. On 8 August 2006, the Company concluded that there are grounds for a more formal investigation and the Board deemed it appropriate to suspend Steve Graham pending the final outcome of the more formal investigation.

Gavin James (43), Group Finance Director, joined iSOFT in July 2005 and was appointed to the Board on 21 June 2005. He was formerly Finance Director of Morse plc from 1998 to 2005 and before that was Group Finance Director of Menveir-Swain Group plc. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Ravi Kumar (38), Chief Technology Officer, joined KPMG's healthcare information systems business in 1992 and was part of the original management team of iSOFT when it was founded in 1998. He was appointed to the Board of iSOFT Group plc on 7 October 2004.

Eurfyl ap Gwilym (61), Non-executive director, was appointed to the Board of iSOFT Group plc on 19 May 2000 and is Chair of the Remuneration Committee. He is a non-executive director of the Principality Building Society, NCC Group plc and Pure Wafer plc. He was formerly a director of the Terence Chapman Group plc.

Rene Kern (43), Non-executive director, was appointed to the Board of iSOFT Group plc on 14 March 2003. He is a managing director and a member of the Executive and Investment committees of General Atlantic LLC, who owned 4.95% of the shares of iSOFT Group plc at the balance sheet date. He is also a non-executive director of Intec Telecom Systems plc and RiskMetrics Group Inc.

Ken Lever (52), Non-executive director and chair of the Audit Committee. He joined the iSOFT Board on 21 June 2005 and is the Senior Independent Director. He is the Finance Director of Tomkins Plc, a member of the ICAEW Financial Reporting Committee and Chairman of the Hundred Group Financial Reporting Committee. He has held executive directorships at Albright and Wilson plc, Alfred McAlpine plc and Corton Beach plc and was a partner in Arthur Andersen. He is a fellow of the Institute of Chartered Accountants in England and Wales.

David Thorpe (57), Non-executive director, joined the iSOFT Group plc Board on 23 December 2003, having been appointed as a non-executive director of Torex PLC on 28 May 2003. He has held a number of senior positions within Electronic Data Systems (EDS) including UK Chief Executive and latterly President of EDS Europe. He is Non-executive Chairman of Morgan Chambers plc, Tunstall Ltd and CAS Services Holdings Limited and a non-executive director of VT Group plc, the Innovation Group plc. He chairs the Racecourse Association, is a director of the British Horseracing Board and a member of the Chartered Institute of Public Finance and Accounting.

1 2 3

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1 John Weston 2 Gavin James 3 Ravi Kumar

Geoff White (53), Non-executive Deputy Chairman and chair of the Nomination Committee, was appointed to the Board of iSOFT Group plc on 19 May 2000. He is non-executive Chairman of Punch Graphix plc, non-executive Chairman of Patientline and a non-executive director of Tekdata Distribution Ltd and Tekdata Interconnections Ltd. He was formerly Chief Executive of Pressac plc until June 2001 and a non-executive director of Derby City NHS Trust. He is a fellow of the Institute of Chartered Accountants in England and Wales.

During the year, Sir Digby Jones resigned as a Non-executive director on 25 July 2005, Patrick Cryne resigned as Chairman and as a director of the Company on 19 October 2005 and Colin Wall resigned as a director on 3 April 2006. Tim Whiston resigned as Chief Executive Officer and as a director of the Company on 14 June 2006. On 8 August 2006, the Board deemed it appropriate to suspend Steve Graham pending the final outcome of a formal investigation into possible accounting irregularities.

The Board considered that on his appointment John Weston was independent. The Board considers that Eurfyl ap Gwilym, Ken Lever, David Thorpe and Geoff White were independent throughout the year and that they remain independent at the date of this report. The Board also considered Colin Wall to be independent whilst he was a director. The Board does not consider Rene Kern to be independent due to his relationship with General Atlantic Partners LLC, which holds a 4.95% shareholding in the Company. All directors are subject to election by the shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals determined in accordance with the Company's Articles of Association.

John Weston will stand for election at the Annual General Meeting, it being the first Annual General Meeting since his appointment. In addition, Eurfyl ap Gwilym, David Thorpe and Rene Kern will retire by rotation and will offer themselves for re-election at the AGM. The Chairman has confirmed that the directors standing for re-election have fully met the performance standards required of directors by the Company and that each of them continues to be committed to the role. In addition, in respect of the proposal to re-elect Eurfyl ap Gwilym, the Company, having undertaken a review as required by the Combined Code, has determined that it is appropriate for Eurfyl ap Gwilym to serve as a director for a period longer than six years.

Directors' share interests

The beneficial share interests in the ordinary share capital of the Company of those persons who were directors at the balance sheet date were as follows:

	Ordinary shares at 1 May 2005*	% issued capital	Ordinary shares at 30 April 2006	% issued capital
Tim Whiston	449,547	0.20%	1,078,785[1]	0.46%
Steve Graham	5,000,000	2.20%	3,115,108[1]	1.34%
Gavin James	-	-	134,553[1,2]	0.06%
Ravi Kumar	650,000	0.29%	885,298[1,2]	0.38%
John Weston	-	-	106,000	0.05%
Eurfyl ap Gwilym	45,454	0.02%	45,454	0.02%
David Thorpe	10,000	0.005%	10,000	0.005%
Geoff White	50,454	0.02%	50,454	0.02%

*at 1 May 2005 or date of appointment if later

(1) Including a beneficial interest in awards made under the iSOFT Performance Share Plan 2005 on 28 July 2005. For further details of the iSOFT Performance Share Plan 2005 see page 52.

(2) Including a beneficial interest in the Bonus Shares awarded on 28 July 2005. For further details of the Bonus Shares see page 53.

There have been no changes in the above interests between 30 April 2006 and 25 August 2006.

Beneficial interests include the directors' personal holdings and those of their spouses and minor children as well as holdings in family trusts of which the directors' spouses or their minor children are beneficiaries or potential beneficiaries.

Rene Kern had no beneficial share interests at the balance sheet date, however, he is an employee of General Atlantic LLC, which owned 4.95% of the issued share capital of iSOFT Group plc at the balance sheet date.

Research and development

The Group committed significant investment to research and development in 2006 and employed an average 1,454 employees during the year (2005: 1,019) out of a total average employee base of 3,224 (2005: 2,546) Research and development spending, net of capitalised costs of £0.7 million (2005: £2.4 million), totalled £22.6 million (2005: £15.9 million), representing 11.2% of turnover. This investment ensures that iSOFT's software application portfolio benefits from the latest technologies and continues to address the current and emerging customer business needs, thus protecting the market position of the Group and the potential for future revenue generation.

Quality

iSOFT maintains a policy of ensuring that appropriate standards of operation are maintained across the Group. The achievement of ISO 9001:2000 accreditation has been extended to the Product Development Centre in Chennai which supports our commitment to this quality standard. iSOFT is working towards obtaining ISO 17799 Information Security Management System (ISMS) and Capability Maturity Model® Integration (CMMI) Level 4 accreditation.

The Group committed significant investment to research and development in 2006. This investment ensures that iSOFT's software application portfolio benefits from the latest technologies and continues to address the current and emerging customer business needs.

Payments to creditors
The Company does not follow any specific external code or standard on payment practice, but its policy is to negotiate normal commercial terms of payment with all suppliers and to ensure that those suppliers are made fully aware of those terms. The Company abides by those terms provided it is satisfied that suppliers have met their contractual obligations. At 30 April 2006, the number of days of trade creditors, calculated by reference to the total amounts invoiced by suppliers, was 33 days (2005: 23 days).

Share capital
Full details of changes in share capital in the year are shown in note 22 to the financial statements on page 100. Other than the directors, the Company has been notified of the following interests in more than 3% of the issued share capital of the Company at the date of this report:

Franklin Resources	12.40%
Fidelity International	11.99%
Deutsche Bank AG	6.27%
General Atlantic	4.95%
Arrowstreet Capital	4.71%
Insight Investment Management	4.67%
Wellington Management	4.15%
Legal and General	3.77%
Investment Management	3.36%
HSBC Bank	3.06%

Annual General Meeting
The Annual General Meeting will be held at the Hilton Manchester Airport hotel, Outwood Lane, Ringway, Manchester M90 4WP at 2.00 pm on 17 October 2006. The resolutions to be proposed at the Annual General Meeting, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders. The proxy card for registered shareholders is distributed with the Notice of Annual General Meeting.

Information given to auditors
Each of the directors at the date of approval of this report confirms that:

1 so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

2 the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors
The Company has monitored and reviewed the performance of its external auditors as detailed in the Audit Committee Report, and proposes to re-appoint Deloitte & Touche LLP at the forthcoming Annual General Meeting.

Approval
The Report of the Directors was approved by the Board on 25 August 2006 and signed on its behalf by:

John Weston
Chairman and acting Chief Executive Officer

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The Board of directors is committed to maintaining the required standards of corporate governance.

The Board of iSOFT Group plc is committed to maintaining the required standards of corporate governance. The following statement explains how the Company has applied the principles of good governance and best practice in compliance with the provisions of the Combined Code.

03

At the hospital, Scott is examined by the on-call medical team and is immediately placed on a care pathway for ketoacidosis. He is prescribed intravenous fluids and insulin, and a regime of hourly blood sugar tests is started.

Details of the hospital's diagnosis and the treatment pathway are entered into Scott's care record, again using LORENZO on a tablet PC. A colour retinal photograph is also booked.

Continued on page 40.

Statement of Compliance with the Code of Best Practice

Throughout the year ended 30 April 2006, the Company has been in compliance with the Code provisions set out in section 1 of the 2003 FRC Combined Code on Corporate Governance with the exception of the following matters listed below:

1. The Combined Code provision A3.3 requires the Board to appoint one of the independent non-executive Directors to be the senior independent Director. Sir Digby Jones undertook this role from the start of the year to 25 July 2005 and Colin Wall undertook this role from 25 July 2005 to 3 April 2006 when he resigned from the Board. Subsequently, the Board took the opportunity to consider its structure and balance and appointed Ken Lever to this role on 24 August 2006. As a result, there was no compliance with this provision between 3 April 2006 and 24 August 2006.
2. The Combined Code provision B2.1 requires the remuneration committee to comprise of at least three members who should all be considered to be independent. Following the resignation of Colin Wall on 3 April 2006, the remuneration committee comprised only two independent directors and therefore the Company was not in compliance with this Code provision. The Board intends to take the opportunity to consider its

structure and balance and to appoint a further appropriate member to meet the requirements of the Combined Code. Colin Wall was the Chairman of the Remuneration Committee from 1 April 2005 to 3 April 2006. Subsequently, the Board took the opportunity to consider his replacement and appointed Eurfyl ap Gwilym on 24 August 2006.

3. Post year end, following the resignation of the Chief Executive Officer, Tim Whiston, on 14 June 2006, the Chairman has also assumed the responsibilities of the Chief Executive Officer. As a result, the Company does not currently comply with provision A2.2 of the Combined Code that requires a clear division of responsibilities at the head of a company between the running of the Board and executive responsibility for the running of a Company's business. However, the Board recognises that the Chairman has assumed these responsibilities as a temporary measure and believes that the Chairman is best placed to lead the Company through this transitional period. The Board is currently seeking to appoint additional executive and non-executive directors to increase the diversity, skills and experience brought to the Board and to complement existing expertise.

Board balance and independence

Up until 3 April 2006 when Colin Wall resigned, the Board comprised a non-executive Chairman, a Chief Executive Officer, three further executive directors and six experienced non-executive directors, five of whom were considered to be independent during the year on the basis of the criteria specified in paragraph A.3.1 of the Combined Code. From 3 April 2006 until 14 June 2006, the Board comprised a non-executive Chairman, a Chief Executive Officer, three further executive directors and five experienced non-executive directors, four of whom were considered to be independent during the year on the basis of the criteria specified in paragraph A3.1 of the Combined Code. Biographical details of each director are set out on pages 26 to 27.

In accordance with A 3.1 of the Combined Code Eurfyl ap Gwilym, Ken Lever, David Thorpe and Geoff White are considered to be independent directors. Rene Kern is not considered to be an independent Director, on account of being a Director of General Atlantic LLC which owned 4.95% of iSOFT Group plc at 30 April 2006.

Chairman and Chief Executive

John Weston was appointed Non-executive Chairman on 19 October 2005. The Board considers that on his appointment the Chairman met the independence criteria set out in paragraph A.3.1 of the Combined Code. As reported above, following the resignation of the Chief Executive Officer on 14 June 2006, the Chairman has also assumed the responsibilities of the Chief Executive Officer until a suitable replacement has been appointed.

Board responsibilities

The Board has adopted a formal schedule of matters reserved for its attention, which include the determination of strategy and the approval of annual budgets, significant investments and risk management. This schedule is available for inspection at the Company's registered office.

The Board's role includes:

- representing the interests of shareholders and satisfying all statutory duties due to them;
- deciding the strategic direction of the Company and providing the resources required to fulfil its future needs;
- providing a challenging, confidential forum in which the Chief Executive Officer can test strategic thinking with an informed Group having broad continuity over time;
- requiring the Chief Executive Officer to report regularly and openly on the operational performance of all parts of the Group;
- monitoring the effectiveness of the Chief Executive Officer and his executive team against a series of performance objectives and benchmarks;
- setting a control framework within which the Chief Executive Officer can operate and authorising decisions on major issues and investments;
- constituting subcommittees of the Board to address the issues of remuneration, new appointments and audit;

- determining the remuneration of executive directors and senior members of staff and ensuring that they are appropriately incentivised;
- assisting value creation through entrepreneurial leadership and by the controlled and measured management of a wide range of business risks;
- ensuring appropriate behaviour with respect to the various codes of corporate governance and good business practice, including providing an audit trail of accountability; and
- overseeing good corporate citizenship and ethical behaviour by the Group and its employees with regard to all its internal and external stakeholders.

The directors are encouraged to bring independent judgement to bear on both strategic and operational matters. Any director may challenge company policy and decisions are taken democratically after discussion.

The Board believes that regular involvement with management through the Chief Executive Officer and the executive directors is the most effective way to monitor performance and achieve proper control of the Group. Through openness, the provision of well-defined information and discussion, the Board endeavours to provide leadership in the interests of shareholders.

Board meetings

The Board normally meets at least nine times per year for scheduled Board meetings. The Board also meets as required on an ad hoc basis to deal with urgent business. The table below lists the number of Board meetings and Board committee meetings, and Directors' attendance throughout the year:

	Board Meetings	Nomination Committee	Remuneration Committee	Audit Committee
Total number of meetings held	12	1	6	4
John Weston[1]	8	-	2	1
Tim Whiston[2]	12	-	2	3
Steve Graham	11	-	1	-
Gavin James[3]	11	-	1	4
Ravi Kumar	12	-	-	-
Sir Digby Jones[4]	-	-	-	-
Eurfyl ap Gwilym	10	-	5	4
Rene Kern	11	-	-	1
Ken Lever[5]	10	-	3	3
David Thorpe	8	1	1	3
Geoff White	11	-	-	2
Patrick Cryne[6]	4	-	-	-
Colin Wall[7]	10	1	6	1

1 John Weston was appointed as Non-executive Chairman on 19 October 2005
2 Tim Whiston resigned as Chief Executive Officer on 14 June 2006
3 Gavin James was appointed as an executive director on 21 June 2005
4 Sir Digby Jones resigned as a non-executive director on 25 July 2005
5 Ken Lever was appointed as a non-executive director on 21 June 2005
6 Patrick Cryne resigned as Chairman and director on 19 October 2005
7 Colin Wall resigned as a non-executive director on 3 April 2006

During the year ended 30 April 2006, the Chairman regularly held meetings with the non-executive directors, without executive directors present. The Board also appointed ad hoc sub committees as appropriate during the year to consider specific transactions and other Board related matters.

Appointments to the Board

Under the Company's Articles of Association, all directors are subject to reappointment by shareholders at the Annual General Meeting (AGM) following their appointment, and one third of the directors must retire annually by rotation and seek reappointment at the AGM.

Each member of the Board brings different experience and skills to the operation of the Board and its various committees. Board composition is kept under review and when a new appointment is to be made, consideration is given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition. Comprehensive, formal and tailored induction is provided to new Board members. The Group has long recognised the vital role that non-executive directors have in ensuring high governance standards and maintains a significant, high calibre, non-executive representation on the Board.

Details of the length of executive directors' service contracts appear on page 49. The terms of appointment of non-executive directors are set out on page 55. Any reappointment of a non-executive director beyond two three-year terms is subject to rigorous review. Any non-executive director who has served for more than nine years is subject to annual reappointment by shareholders at the AGM.

Information and professional development

In advance of each scheduled Board meeting, all directors are supplied with information and briefing material in relation to the business to be considered at that meeting. Senior Executives and advisers are invited to attend Board meetings as required by directors. The Chairman and Chief Executive Officer also brief directors on key issues and communications with institutional investors.

Directors have access to the advice and services of the Company Secretary, and may seek independent advice, at the Group's expense, if necessary for the proper performance of their duties. The availability of this advice is set out for non-executive directors in writing upon their appointment.

Induction and training for new directors is arranged by the Company Secretary. Existing Board members have many years of relevant experience and each is responsible for ensuring their continuing professional development and monitoring up-to-date and effective skills and knowledge.

Performance evaluation

The Board monitors performance against the achievement of the Group's strategic objectives. Each executive director has defined responsibilities for performance and measurement of achievement. These include a mix of financial and non-financial, predictive and historic indicators.

The Board has conducted an evaluation of its own performance and that of the Board Committees and individual directors and continues to monitor and consider the effectiveness and performance of each. This process is being assisted by the Group Human Resources Director and included a written questionnaire focusing on collective performance and individual contribution.

Following his appointment as Chairman, John Weston discussed individually with each of the directors the skill sets they believed to be required around the Board table.

Board committees

The Audit, Nomination and Remuneration Committees of the Board deal with specific aspects of the Group's affairs in accordance with their written terms of reference, which are available for inspection at the Company's Registered Office. Each is comprised of independent non-executive directors only.

The Chairman, Chief Executive Officer and other directors are able to attend the meetings of the Board committees under the policy that any director may attend any meeting of a Board committee providing they have no conflict of interest in respect of the business to be discussed.

The Board believes that regular involvement with management through the Chief Executive Officer and the executive directors is the most effective way to monitor performance and achieve proper control of the Group.

The Nomination Committee

The Board has established a nomination committee which meets formally as necessary and at least twice per year. The Chairman of the Nomination Committee throughout the year was Geoff White. The principal function of the Nomination Committee is to review and make recommendations to the Board about Board appointments. The terms of reference of the committee are as follows:

- to propose to the Board the responsibilities of non-executive directors including membership and chairmanship of Board committees;
- to ensure that there is a satisfactory, formal process for the selection of non-executive directors;
- to propose to the Board any new Board appointments;
- to ensure there is good succession planning at Board level;
- to review the effectiveness of directors; and
- to nominate suitable people for the most senior executive positions, including that of Chief Executive Officer.

The Nomination Committee is chaired by Geoff White, Non-executive Deputy Chairman. Members of the committee during the year included Colin Wall and David Thorpe. The Nomination Committee reviewed and made proposals for the nomination of John Weston as Chairman, Gavin James as Finance Director and Ken Lever as a non-executive director.

The Remuneration Committee

Members of the committee during the year included Colin Wall, Eurfyl ap Gwilym, Sir Digby Jones and Ken Lever. From 3 April 2006 to 24 August 2006 there was no Chairman of the Remuneration Committee, however on 24 August 2006 Eurfyl ap Gwilym was appointed as Chairman of the Remuneration Committee. Details of the role and work of the Remuneration Committee are set out in the Remuneration Report on page 45.

The Audit Committee

From 1 April 2005 to 25 July, the Chairman of the Audit Committee was Eurfyl ap Gwilym. Since 25 July 2005, Ken Lever has been the Chairman of the Audit Committee. David Thorpe and Eurfyl ap Gwilym are also members of the Committee. Other directors and the internal and external auditors are invited to attend meetings of the Committee as appropriate. Details of the role and work of the Audit Committee are set out in the report of the Audit Committee on page 57.

Note: Sir Digby Jones resigned as a member of the Audit Committee on 11 May 2004 and not on 6 January 2005 as stated in the 2005 Annual Report.

Accountability and audit

Financial reporting

Through the Financial Review, the Board seeks to provide a balanced assessment of the business of the Group. In conjunction with the Report of the Chairman and Chief Executive, the Directors' Report and the financial statements, the Board seeks to provide a balanced assessment of the Group's performance, position and prospects.

Internal control

Notwithstanding the investigation into possible accounting irregularities, the Board has applied principle C.2 of the Combined Code which requires it to establish a continuous process for identifying, evaluating and managing the significant risks the Group faces which accords with the guidance on internal control published in September 1999 (the Turnbull Guidance). The Board regularly reviews this process which has been in place throughout the financial year and up until the date of the approval of this report. Further information on this review process is noted below.

The Board retains full responsibility for the Group's system of internal controls and for reviewing its effectiveness. Whilst acknowledging their overall responsibility for the system of internal control, the directors are aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable and not absolute assurance against material misstatement or loss. Historically, key elements of the Group's internal controls are:

- a business risk assessment framework identifying the potential likelihood of strategic, operational, commercial and financial risks, their respective potential financial impact and the plans and associated management action to mitigate those risks;
- rolling three-year strategic plans;
- detailed budgeting process;
- quarterly re-forecasting of profits and cash flows;
- regular monitoring of results and forecasts against budget, with investigation and action taken in response to variances.
- established procedures for the approval of capital expenditure, investment and acquisition projects;
- clearly defined management structure and delegated authorities for individual business units and managers within the business units;
- clearly documented internal procedures set out in the Group's ISO 9001:2000 accredited quality management system and regular internal quality audits of key processes and procedures; and
- regular provision of information to executive management and the Board covering financial performance and key performance indicators, including non-financial measures.

As the year has progressed, and as a result of the investigation into possible accounting irregularities in the financial years ended 30 April 2004 and 2005 as described in note 1, it has been recognised that there are areas where the systems of internal control need to be strengthened to improve the overall effectiveness of the management of the Group. Specifically these areas include:

1. forecasting of profits and cash flows in the business units of the Group;
2. strengthening controls around revenue recognition, the selection of accounting policies and the establishment of systems to support the new basis of revenue recognition;
3. clear identification of product profitability;
4. review and approval by the Board of contractual arrangements with existing and new customers;
5. monitoring the progress of new product development in accordance with agreed milestones; and
6. the process for reviewing the Board's own effectiveness.

It was also noted during the internal audit reviews of financial controls in certain business units that there are opportunities to strengthen specific financial controls.

The directors have commenced the development of appropriate action plans in each of the areas to address the identified shortcomings. Further action will be taken by the Board, as appropriate, upon the conclusion of the current investigations.

Not withstanding the investigation into possible accounting irregularities, the Directors confirm that there has been a process in place from the start of the year to the date of the approval of this report for identifying, evaluating and managing significant risks faced by the Company, which is in accordance with guidance on internal control published in September 1999 (the Turnbull Guidance).

The Board retains full responsibility for the Group's system of internal controls and for reviewing its effectiveness.

Going concern
The Group's directors have prepared projected cash flow information for the period ending 12 months from the date of approval of these accounts. The projections include certain key assumptions made by directors, described in note 1.

The nature of the Group's business is such that there can be considerable unpredictable variation and uncertainty regarding the timing and/or occurrence of the matters referred to in note 1, the timing and margin of sales, the quantum and timing of cash flows from new business activity and the achievement of contractual milestones.

In preparing these projections the directors recognise that there are material uncertainties that may cast significant doubts on the Group's ability to continue as a going concern.

Having taken into account the uncertainties referred to in note 1 and above, the directors consider that the cash flow projections are compiled on a reasonable basis and it is on that basis that the directors consider it appropriate to prepare the Group's accounts on the going concern basis. The accounts do not include any adjustments which may be necessary if the Group was unable to continue to operate.

Shareholder communication
The Board is committed to maintaining regular, open dialogue with all of its shareholders. The Board values the views of shareholders and recognises their interests in the Group's strategy and performance. Regular face-to-face meetings are held with institutional fund managers and equity analysts to ensure that the investing community receives a balanced and consistent view of the Group's performance. In normal circumstances when the Group has a separate Chairman and Chief Executive Officer, the Chief Executive Officer and Group Finance Director regularly attend investor meetings and briefings. The Chairman attends as required and, in particular, at the interim and full year results announcements. Whilst the Chairman and Chief Executive Officer roles are temporarily combined as noted above, the Chairman/Chief Executive and Group Finance Director will attend briefings.

The Group has established an investor relations facility on its website www.isoftplc/investor where up-to-date financial and other information can be found, including copies of the Company's presentations to analysts. In addition, the directors appointed a Corporate Communications Director for the first time in April 2006.

Constructive use of the AGM
The Board welcomes the opportunity offered by the AGM to communicate with investors, and encourages their attendance. Shareholders are invited to use this opportunity to raise questions and express their views. Those unable to attend are invited to submit their questions in writing.

The Chairman introduces the AGM with a formal presentation of the Group's business performance over the past year and future prospects going forward.

The numbers of proxy votes cast in favour of, and against, resolutions are reported to the meeting and will this year be published subsequently on the Company's website at www.isoftplc.com.

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRS) and have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year that 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 judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report that comply with the requirements of the Companies Act 1985.

The directors have concluded that the nature of the business has changed. The implementation of the Group's historical revenue recognition policy presumed that the supply of product licences can be separated from implementation and support. The complex construction of the commercial contracts of the business, the level of resources applied to implementation and support on an ongoing basis, and the absence of a reliable third party market in implementation and support of the Company's product have made it increasingly difficult to distinguish between the supply of product licences and implementation and support. As a result the directors concluded that the Company's accounting policy in respect of revenue recognition should be changed. Details of this change are set out in the Report of the Chairman and Chief Executive on pages 2 to 7 and in note 1 to the accounts.

Based on the matters described in note 2 to the accounts, Basis of accounting, on page 74 and subject to the matters referred to in note 1, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Annual Report is available on the Group's website at www.isoftplc.com/investor.

The reader's attention is drawn to note 1 of the financial statements 'Significant matters relating to the basis of preparation of the financial statements'.

Approval
This report was approved by the Board on 25 August 2006 and signed on its behalf by:

John Weston
Chairman and acting Chief Executive Officer

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It is iSOFT's view that operating in an environmentally and socially sustainable manner...

provides a stronger basis for the future development of its business operations.

04

Gradually Scott's condition improves and he is admitted to a ward where a nurse specialising in the treatment of diabetes is brought in to help. The specialist nurse provides Scott with information about diabetes and refers him to a dietician who can provide him with the advice he needs to follow a healthy balanced diet appropriate for his condition. He's also told about the help available online from Diabetes UK at www.diabetes.org.uk

Continued on page 44.

Commitment to Corporate Social Responsibility

It is iSOFT's view that operating in an environmentally and socially sustainable manner provides a stronger basis for the future development of its business operations.

Employment policy

As a knowledge-based organisation, iSOFT continually reviews the suitability of employment policies and practices to attract and retain knowledgeable, high performing employees.

The directors recognise the importance of individual employee contributions in delivering the Group's performance and have maintained a commitment that each employee should regularly receive a formal appraisal. The online appraisal process is an important means by which individual reward and personal advancement is determined. The process measures individual performance against an integrated scorecard of objectives, under the headings; financial, technical and operational, management and relationships, team working and collaborative effort.

During the year the Company introduced an International Mobility Policy setting out enhanced employment terms to encourage the engagement and participation of employees having key domain skills, in global teams. In particular, these terms increased the level of international support available to the Product Group in Chennai, India.

The Company maintains links to local universities and supports education sponsorship within local communities, principally in India and Germany.

Equal opportunities policy
The Group is a committed equal opportunities employer and operates working practices to promote an employment environment that is free from discrimination and harassment.

It is iSOFT policy to ensure that all employees and applicants are treated equally, regardless of gender, marital status, race, colour, disability or sexual orientation. Disabled individuals are afforded the same opportunities as others, and the Group actively supports the employment of disabled persons and the retention of employees who become disabled whilst in the employment of the Group.

Health and safety policy
Following a review of the Group's Health and Safety management, the Group is currently revising its Health and Safety policy and planning to improve communication of its Health and Safety policy through the production and issue of a new guide for all employees and visitors.

Employee equity participation
Many employees across the Group have shareholding interests in the Company either directly or under share option and Sharesave schemes. The directors actively encourage employee equity participation, subject to compliance with the Group's employee share dealing policy. Details of the current employee share option schemes and options granted during the year are provided in note 26 to the financial statements on page 104.

Employee communication and consultation
The Group provides employees with regular updates and information about the Group through the electronic publication of an employee newsletter and through the Group's employee intranet, iGATE.

iSOFT has established two Employee Consultation Forums ('VOiCE') with elected representatives. These are for employees in the UK and India. VOiCE was established to create a means of active involvement, social dialogue, information dissemination and communication. In the UK, iVOiCE, played an important role in representing employee interests to the Company regarding the closure of the Birmingham office and the initial stages of the UK headcount reduction programme.

Twenty high potential employees from across the Group were brought together at the Group headquarters over four days in October 2005. The aim was to create a forum for sharing ideas about how to improve interaction across the Group and to participate in personal development exercises. The event has led to stronger working ties between different parts of the Group.

Social, Environmental and Ethical (SEE) matters
The iSOFT business recognises that achieving success in environmental and social management is a joint responsibility between employees and management. Active employee participation in community events and charities is strongly supported through the giving of time and the internal promotion and support for such activities.

The directors recognise that whilst iSOFT's business activities as a developer and supplier of software applications have minimal direct environmental impact, there are environmental impacts in running a company and our commitment to adopting best practice evidences our responsibility. The Group's environmental policy aims to raise awareness of environmental matters, establish standards, assess the impact of its business activities on the environment, set improvement objectives and monitor performance against these objectives.

The Group's philosophy is to establish a paperless working environment wherever appropriate. This is supported through the automation of a number of internal management and administrative processes such as performance appraisals, job profiles and a competency framework, and annual leave requests. The Group continues to look at ways to move closer to a paperless working environment.

The Group also encourages staff to minimise unnecessary travel by using web exchange and video conferencing facilities and working from home in appropriate circumstances.

The responsibility for maintaining and enforcing the SEE policy resides at Board level. The Board confirms that it does not consider any significant SEE issues to have arisen during the course of the year.

A copy of the current environmental policy is available on the Group's website at www.isoftplc.com/corporate/company_information.

Donations
Individual office locations throughout the Group have informally co-ordinated employee fund raising activities for national charities during the course of the year.

iSOFT made no financial contributions to political parties in the year.

Approval
This report was approved by the Board on 25 August 2006 and signed on its behalf by:

John Weston
Chairman and acting Chief Executive Officer

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Please visit www.isoftplc.com/investor for complete version.

The Remuneration Committee aims to align executive director and senior management interests with the interests of shareholders...

by ensuring that remuneration at senior levels is weighted toward performance related elements.

05

Well enough to return home, Scott is given an appointment to visit the hospital's ophthalmology department so that he can have a colour retinal photograph to check for possible diabetes-related damage to his eyes. Via LORENZO, the results of the scan are sent to his GP and are included in his health record.

Continued on page 56.

Introduction

This report sets out the iSOFT Group executive remuneration policy, structure and details of remuneration received by directors in the year ended 30 April 2006 as required by the Directors' Remuneration Report Regulations 2002. As proposed in the 2005 Annual Report, there were some changes to remuneration structures in 2006 as compared to 2005 and these are outlined in detail later in this report.

Role of the Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the Chairman of the Board, Chief Executive Officer, executive directors and direct reports to the Chief Executive Officer and the executive directors, where base pay is in excess of £100,000 per annum, or where base plus cash bonuses are in excess of £200,000 per annum. The committee also monitors remuneration policy more generally and particularly in relation to overall coherence and expected or potential cost. The committee amended its terms of reference to those above to ensure it continued to have responsibility for setting the remuneration of senior management following changes that had taken place in the senior management structure during the year.

The remuneration of non-executive directors is determined by the Board as a whole. No director is involved in discussions relating to their own remuneration.

Membership and meetings

The members of the Remuneration Committee during the year were Colin Wall, chair of the committee until his resignation on 3 April 2006, Sir Digby Jones until his resignation on 25 July 2005, Eurfyl ap Gwilym and Ken Lever, who was appointed to the committee on 25 July 2005. Eurfyl ap Gwilym was appointed chairman of the committee on 24 August 2006. All of the members of the committee are independent non-executive directors. The committee met five times during the year. Details of attendance at meetings can be found on page 33. The Chairman of the Board, Chief Executive Officer and other directors are able to attend the meetings of the Remuneration Committee under the practice that any director may attend any meeting of a Board Committee providing they have no conflict of interest in respect of the business to be discussed.

Advisers

During the year the Remuneration Committee received guidance on executive remuneration from the Chief Executive Officer, the Group Human Resources Director and the Company Secretary, except on matters relating to their own remuneration. The committee received independent external advice from New Bridge Street Consultants LLP and Kepler Associates Ltd. On 15 March 2006, the Remuneration Committee appointed Kepler Associates Ltd as its principal independent external adviser for remuneration matters in place of New Bridge Street Consultants. No other services were provided to the Company during the year by Kepler Associates Ltd.

Executive directors' remuneration policy

The Remuneration Committee aims to align executive director and senior management interests with the interests of shareholders by ensuring that remuneration at senior levels is weighted toward performance-related elements. The policy is also specifically designed to attract, retain and motivate the talent the business needs.

Remuneration packages of the executive directors are reviewed annually to ensure that they remain aligned with the Group's business objectives and the interests of shareholders. Following the review in 2005, the Committee has introduced an updated remuneration policy which provides a competitive base salary with a significant proportion of remuneration linked directly to Group and individual performance. The new arrangements are highly performance-oriented, and are intended to deliver upper quartile levels of reward for outstanding performance. They will also result in decreased remuneration for below average performance and higher reward for superior performance. The proposed mix of incentives has been rebalanced towards longer-term performance.

The remuneration of executive directors during the year comprised the following elements:

- base salary;
- annual performance bonus;
- performance share awards;
- pension contribution; and
- other benefits.

Base salary

Base salaries are reviewed annually and adjustments made where necessary to reflect changes in responsibilities, individual performance and market rates.

The Committee determined the competitiveness of pay will be assessed primarily in terms of total remuneration, with less emphasis on base salary alone. Base salary and total remuneration levels are benchmarked against similar positions in comparable companies. The committee reviewed the base salaries of the executive directors at 1 May 2005 and decided to increase the base salaries of Tim Whiston and Steve Graham to £460,000 and £385,000 respectively. There were no changes to the base salaries of the executive directors during the year. The committee decided not to increase the base salaries of any of the executive directors at

1 May 2006 review. It is proposed in future that executive directors' base salaries be reviewed at 1 January consistent with other Group employees. Details of directors' emoluments are set out on page 50.

Annual performance bonus
The Group provides performance-related bonuses for executive directors. In line with the proposal put to shareholders at the AGM in July 2005, annual bonuses for directors for the year ending 30 April 2006 and for subsequent years were to be capped at 100% of base salary and the whole of the bonus paid in cash. Bonuses are payable at the discretion of the Committee based on the Group's financial performance and individual performance. The financial performance targets are set with reference to, amongst other things, Group normalised profit before tax, amended for the impact of any acquisitions. The committee ensures that the individual performance criteria are suitably challenging and as such are aligned with shareholder interests.

Due to the performance of the Company during the year ended 30 April 2006, no performance related bonuses were awarded to executive directors.

A deferred bonus in the form of shares ('Bonus Shares') was awarded to Gavin James and Ravi Kumar on 28 July 2005. In the case of Ravi Kumar the award was made to recognise his contribution to the Company prior to joining the Board and in the case of Gavin James to align his interests to the shareholders. The value of the award was equal to their base salary. The monetary value of the bonus was translated into shares based on the average market price of the Company's shares in the three trading days preceding the award date, which was 418p. The only condition attaching to vesting of the award is that the director remains in employment with the Company for three years from the date of the award.

A proportion of the Bonus Shares corresponding to such proportion of the holding period as has elapsed may be released early if the executive director ceases to hold employment with the Group by reason of death, disability, injury, redundancy, retirement or otherwise if the Remuneration Committee so determines. Bonus Shares may also be released early in the event of a takeover or corporate reconstruction of the Group.

The Performance Share Plan (PSP) 2005
The Performance Share Plan (PSP) was approved by the shareholders at the AGM in July 2005. Under the PSP, executive directors can receive annual grants of nil-cost options or conditional shares which will vest three years after the date of grant to the extent to that performance conditions have been achieved. Grant sizes may be reviewed from time to time, taking account of total remuneration for executives within the Group versus the market. It is not intended to change the grant sizes each year but there is an overall annual plan limit of 200% of base salary to allow flexibility in exceptional circumstances.

The performance measure is iSOFT's Total Shareholder Return (TSR), i.e. share price growth and dividends, relative to that of the companies that make up the FTSE Software & Computer Services Index. The Committee has decided that the FTSE Software & Computer Services Index is a suitable comparator as the Company has been a constituent of this index for a significant period since flotation.

The graph below illustrates TSR performance of the Company in comparison to the FTSE Software & Computer Services Index over the period since listing in July 2000.

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Please visit www.isoftplc.com/investor for complete version.

iSOFT   FTSE 250   FTSE Soft & Comp Serv.   FTSE Techmark 100

No options or conditional shares will vest if iSOFT is ranked below median, 20% of shares will vest for median performance and full vesting will occur only for top quartile performance. Vesting between median and upper quartile will be on a straight-line basis. The executives will be entitled to a payment equal to the dividends which would have been due during the three year performance period on those shares that actually vest.

On 28 July 2005, in accordance with the proposal put to shareholders at the AGM in July 2005, the Company made awards under the PSP to each of the executive directors with a value of equal to 125% of their respective base salaries. The average mid market price of the Company's shares on the 3 days preceding 28 July 2005 was 418p. These grants were made in the form of conditional shares and subject to the performance conditions set out above.

Share options

The Group operates an approved and an unapproved share option scheme.

Following introduction of the PSP (see above), it is not intended to make any further awards to executive directors under the share option schemes other than in exceptional circumstances. Prior to the introduction of the new proposals, Gavin James was granted 250,000 options with an exercise price of 423.8 pence on 30 June 2005 and these are subject to challenging performance targets, based on normalised profit before tax growth in the three years following the grant. Apart from the grant to Gavin James, no share options have been granted to directors during the year. All options granted to executive directors are subject to the achievement of certain performance conditions.

Revised option performance criteria are currently being reviewed and considered by the Remuneration Committee. Details of the share options granted to date are set out on page 51.

Pension contributions

The Group makes an annual payment to executive directors equal to 20% of base salary. Directors are responsible for using these funds to make their own pension arrangements. Details of contributions paid to the executive directors during the year are set out on page 54.

Other benefits
Other benefits provided to the executive directors comprised private health insurance, private medical insurance and life assurance. Ravi Kumar's entitlement to a car allowance ended on 30 April 2006.

The Bonus Co-investment Plan (BCP) 2005
The Bonus Co-Investment Plan (BCP) was approved by the shareholders at the AGM in July 2005. Under the terms of this plan, executive directors are able to commit voluntarily up to 100% of their earned annual bonus into iSOFT shares. This would provide the opportunity for executives to earn matching shares up to a maximum of three for one subject to iSOFT meeting challenging three year Earnings Per Share (EPS) growth targets. In the event that an executive director disposes of committed shares with in a period of three years, he loses the benefit of the BCP in respect of the committed shares disposed of. The Company intended to introduce the BCP for bonus paid in respect of the year ended 30 April 2006, however, it has been decided to postpone the introduction of the BCP. The Remuneration Committee will review the introduction of the BCP in 2007.

Service contracts and termination provisions policy
The Combined Code and the latest guidelines issued by institutional investors recommend that notice periods of no more than one year be set as an objective for executive directors, and that any payments to a departing executive director should be determined having full regard to the duty of mitigation. It is the Company's intention to achieve these objectives, wherever possible.

Details of the service contracts of those serving as executive directors at the year end are set out below.

The Company's policy is that in normal circumstances executive directors should have rolling service contracts with an indefinite term providing for a maximum of one year's notice from either party to reflect market practice.

Patrick Cryne resigned as a director of iSOFT Group plc on 19 October 2005. He was subsequently retained by the Group as a Business Development Executive and was paid an aggregate remuneration of £91,987 up until his resignation from this post on 26 February 2006.

Share ownership guideline
To further align the interests of shareholders and executives, the Committee has introduced a share ownership guideline, which requires executive directors to hold shares with a value equivalent to 125% of salary for executive directors when the new incentive arrangements were introduced. During the year the share ownership guideline was met by Tim Whiston, Steve Graham and Ravi Kumar. As a newly appointed executive director, Gavin James is not required to meet this guideline yet.

External appointments
The consent of the Board is required for any external appointments proposed by an individual director, such as a non-executive director position with another company, to ensure that the appointment does not give rise to a conflict of interest. Where an appointment is accepted, it must be undertaken in the director's own time. The director is permitted to retain any remuneration earned from the external appointment. Details of principal external appointments of the directors are set out on pages 26 to 27.

	Contract date	Unexpired term	Notice period	Termination payments
Tim Whiston	25 Mar 2003	Rolling	12 months	1 year's salary plus 1 year's pension contribution and benefits
Steve Graham	19 May 2000	Rolling	12 months	1 year's salary plus 1 year's pension contribution and benefits
Gavin James	21 June 2005	Rolling	12 months	1 year's salary plus 1 year's pension contribution and benefits
Ravi Kumar	01 Nov 2004	Rolling	12 months	1 year's salary plus 1 year's pension contribution and benefits

Directors' emoluments (audited)

Directors' remuneration for the year ended 30 April 2006 was as follows:

	Base salary earned/fees £'000	Benefits* £'000	Performance related bonus payable in cash £'000	Total 2006 £'000	Total 2005 £'000	Prevailing base salary/fees at 30 April 2006 £'000
John Weston[1]	107	-	-	107	-	200
Patrick Cryne[2]	92	1	-	93	500	-
Tim Whiston[8]	462	3	-	465	721	460
Steve Graham[9]	387	3	-	390	604	385
Gavin James[3]	188	2	-	190	-	250
Ravi Kumar	250	9	-	259	256	250
Geoff White	120	-	-	120	80	120
Sir Digby Jones[4]	24	-	-	24	60	-
Eurfyl ap Gwilym	54	-	-	54	60	50
Colin Wall[5]	60	-	-	60	48	-
David Thorpe	50	-	-	50	45	50
Rene Kern[6]	-	-	-	-	-	-
Ken Lever[7]	42	-	-	42	-	60
John Whelan	-	-	-	-	591	-
Mark Woodbridge	-	-	-	-	130	-
Total	1,836	18	-	1,854	3,095	1,825

*Benefits comprise private medical insurance, life assurance, permanent health insurance and car allowances. Pension contributions made by the Company are shown separately on page 54.
No performance related bonuses have been awarded by the Board in respect of the year ended 30 April 2006.

1 John Weston was appointed non-executive Chairman on 19 October 2005
2 Patrick Cryne resigned as a director of iSOFT on 19 October 2005. He was retained by the Group as an employee in the role of Business Development Executive under his existing service contract and resigned on 26 February 2006.
3 Gavin James was appointed on 21 June 2005 and started employment in July 2005. He sacrificed an element of his base salary towards payment into his Group Personal Pension Scheme via the SmartPay mechanism.
4 Sir Digby Jones resigned as a non-executive director on 25 July 2005
5 Colin Wall resigned as a non-executive director on 3 April 2006
6 Rene Kern is a non-executive director but receives no fee.
7 Ken Lever was appointed as a non-executive director on 21 June 2005
8 Tim Whiston resigned as Chief Executive Officer on 14 June 2006. The amount shown above as base salary earned includes £2,000 back pay for the increase in remuneration received with effect of 1 April 2005.
9 Steve Graham's base salary earned shown above includes £2,000 back pay for the increase in remuneration received with effect from 1 April 2005.

As was indicated in last year's annual report, following the resignation of Sir Digby Jones as a director on 25 July 2005, the Company retained his services as an adviser on external affairs. Under the terms of this arrangement, Sir Digby Jones was paid a fee of £45,000 during the financial year ended 30 April 2006.

Following his resignation on 14 June 2006, Tim Whiston was paid a sum of £552,000, being equivalent to 12 months' basic salary and pension contributions. The Remuneration Committee also agreed that Tim Whiston's deferred bonus shares would vest and would be settled by a cash payment of £132,685. The Remuneration Committee further resolved that Tim Whiston would be treated as a good leaver for the purposes of the share option schemes and the PSP.

Share options (audited)
In addition to the directors' share interests noted in the Report of the Directors on page 28, the following share options have been granted to directors:

	Exercise price pence	At 1 May 2005*	Granted during the year	Exercised during the year	At 30 April 2006	Date from which exercisable	Expiry date
Tim Whiston							
	110[1]	101,000	-	101,000	-	11 Jul 2003	10 Jul 2010
	174[1]	250,000	-	250,000	-	20 Dec 2003	19 Dec 2010
	249[1]	850,000	-	850,000	-	22 Jun 2004	21 Jun 2011
	145[1]	480,176	-	480,176	-	11 Oct 2005	10 Oct 2012
	145[1]	19,824	-	19,824	-	11 Oct 2005	10 Oct 2012
	372[2]	430,000	-	-	430,000	09 Feb 2008	08 Feb 2015
Steve Graham							
	372[2]	351,929	-	-	351,929	09 Feb 2008	08 Feb 2015
	372[2]	8,071	-	-	8,071	09 Feb 2008	08 Feb 2015
Gavin James							
	423.75[2]	-	242,921	-	242,921	30 Jun 2008	29 Jun 2015
	423.75[2]	-	7,079	-	7,079	30 Jun 2008	29 Jun 2015
Ravi Kumar							
	110[1]	101,000	-	101,000	-	11 Jul 2003	10 Jul 2010
	217.5[1]	125,000	-	125,000	-	11 Oct 2004	10 Oct 2011
	151[1]	80,176	-	-	80,176	30 Sep 2005	29 Sep 2012
	151[1]	19,824	-	-	19,824	30 Sep 2005	29 Sep 2012
	338[2]	150,000	-	-	150,000	24 Mar 2007	23 Mar 2014
	372[2]	250,000	-	-	250,000	09 Feb 2008	8 Feb 2015

* Or at date of appointment if later.

Tim Whiston, Steve Graham and Ravi Kumar each participated in the Group's Sharesave scheme during the year. At 1 May 2005, each was entitled to purchase 5,422 shares at a price of 175 pence per share from 1 October 2005. These rights were not exercised and expired on 31 March 2006.

1 The performance criteria for these options has been satisfied as the performance of the Company's Total Shareholder Return (TSR) relative to growth in the Retail Price Index (RPI) over the three year period from the date of grant of the option has exceeded the growth in RPI by 50%.
2 Options are exercisable subject to the growth in the Company's normalised profit before tax relative to the growth in RPI over *the three year period from the date of grant of the option:*

- 50% of options may be exercised if normalised profit before tax growth exceeds the growth in RPI by 10%
- 100% of options may be exercised if normalised profit before tax growth exceeds the growth in RPI by 20%.
- Where the performance target growth falls between the levels specified, the proportion of options that may be exercised will be calculated on a straight line basis. Where the *growth is less than the minimum growth level specified* above, all of the options lapse and cease to be exercisable.
- Tim Whiston exercised 1,701,000 share options in the period with a gross gain of £3,687,730 and sold 935,852 of the shares acquired realising sufficient funds to match tax liabilities and amounts payable to the Company on the option exercises.
- Ravi Kumar exercised 226,000 share options in the period with a gross gain of £596,283 and sold 155,813 of the shares acquired realising sufficient funds to match tax liabilities and amounts payable to the Company on the options exercised.

Performance Share Plan 2005

	Award date	At 1 May 2005 number	Shares awarded number	At 30 April 2006 number	Date due to vest
Tim Whiston	28 July 2005	-	137,532	137,532	29 July 2008
Steve Graham	28 July 2005	-	115,108	115,108	29 July 2008
Ravi Kumar	28 July 2005	-	74,745	74,745	29 July 2008
Gavin James	28 July 2005	-	74,745	74,745	29 July 2008

The average mid market price of the Company's shares over the 3 days preceding 28 July 2005 was 418p. The number of shares awarded provides a value of 125% of base salary and have been awarded on a zero cost basis. The shares are subject to forfeiture arrangements in the event that the Company's Total Shareholder Return (TSR) does not achieve the performance measures set out below over a three year period relative to the companies that make up the FTSE Software & Computer Services Index:

- If the Company is ranked at or above the upper quartile position of the TSR list, all of the shares will become vested and be released to the director.
- If the Company is ranked at a median position of the TSR list, 20% (rounded up to the nearest whole share) of the shares will become vested and be released to the director.
- If the Company is ranked below the median position of the TSR list, none of the shares will be released to the director.
- If the Company is ranked between the median and upper quartile positions of the TSR list, the number of shares which will become vested and be released to the director will be calculated on a straight line basis between the median and upper quartile.

Deferred share bonus awards (audited)

Shares awarded to the directors and former directors under the deferred share bonus plan are as follows:

	Award date	*At 1 May* 2005 number	*Shares* awarded number	*Vested* number	*At 30 April* 2006 number	*Date vested/* due to vest
Patrick Cryne[2]	30 Apr 2003	95,351	-	-	95,351	01 May 2006[3]
	30 Apr 2004	62,378	-	-	62,378	01 May 2007[3]
	30 Apr 2005	44,507	-	-	44,507	01 May 2008[3]
Tim Whiston[1]	30 Apr 2003	95,351	-	-	95,351	01 May 2006
	30 Apr 2004	63,112	-	-	63,112	01 May 2007
	30 Apr 2005	81,690	-	-	81,690	01 May 2008
Steve Graham	30 Apr 2003	82,637	-	-	82,637	01 May 2006[3]
	30 Apr 2004	61,644	-	-	61,644	01 May 2007
	30 Apr 2005	68,450	-	-	68,450	01 May 2008
Ravi Kumar	30 Apr 2005	47,605	-	-	47,605	01 May 2008
John Whelan	30 Apr 2004	39,628	-	39,628	-	20 Jun 2005
Roger Dickens	30 Apr 2003	76,403	-	-	76,403	01 May 2006[3]

1 In June 2006, £132,856 was paid to Mr Whiston in cash to cancel the deferred share awards outstanding to him.
2 On 15 March 2006, the Remuneration Committee exercised its discretion to allow Patrick Cryne to retain and vest his deferred bonus shares.
3 Deferred bonus shares due to be vested pending the end of the Company's close period, in accordance with Listing Rule regulations.

Deferred share bonus awards are awards of conditional shares which have been granted to executive directors and which will vest three years after the date of grant. If the director leaves employment with the Company before the end of the three-year holding period for any reason other than ill-health, redundancy, retirement, death or because the business or company with whom he holds office is no longer a member of the Group, or for any other reason at the discretion of the trustee, the director shall immediately forfeit all of the conditional shares. If the director leaves for any of the reasons set out above before the end of the three-year period, the conditional shares shall be released to the director corresponding to the proportion of the holding period which has elapsed at the date of leaving.

Other Deferred Share Awards

Other deferred shares awarded to the directors as bonus shares are as follows:

	Award date	At 1 May 2005 number	Shares awarded number	At 30 April 2006 number	Date due to vest
Ravi Kumar	28 Jul 2005	-	59,808	59,808	29 Jul 2008
Gavin James	28 Jul 2005	-	59,808	59,808	29 Jul 2008

Pension contributions (audited)

	2006 £'000	2005 £'000
Patrick Cryne	18	68
Tim Whiston	93	86
Steve Graham	77	72
Ravi Kumar	76	28
Gavin James[1]	64	-
John Whelan	-	54
Total	328	308

1 Gavin James invested an element of his pension allowance in the Company's Group Pension via the SmartPay mechanism. The employer's National Insurance rebate for 2005 of £2,000 has been included in the pension allowance amount shown above.

The remuneration of non-executive directors is determined by the Board with regard to market comparatives. Independent advice is sought to ensure parity is maintained with similar businesses.

Non-executive directors
Non-executive directors do not have service agreements and are appointed under letters of appointment. Under the terms of the letters of appointment, non-executive directors are appointed for an initial term of three years, unless the appointment is terminated by either party. There are no provisions for early termination payments. The appointment of a non-executive director is subject to shareholder approval at the first annual general meeting following the director's appointment. Continuation of appointment is subject to continued satisfactory performance and re-election at forthcoming annual general meetings, in accordance with the Company's articles of association. Letters of appointment are available for inspection at the Company's registered office.

The remuneration of non-executive directors is determined by the Board with regard to market comparatives. Independent advice is sought to ensure parity is maintained with similar businesses. Remuneration was last reviewed in September 2005 using data provided by Kepler Associates Ltd.

The basic annual fee for non-executive directors was not increased during the year. The Board may pay additional remuneration for any services outside the scope of the ordinary duties of a non-executive director.

The mid market price of the Company's shares at 1 May 2005 and 30 April 2006 was 351 pence and 117.5 pence respectively. The range during the financial year was between 461 pence and 112.5 pence.

Combined Code
The Committee and its operation comply with the principles of good governance and the Combined Code on corporate governance as appended to the Listing Rules of the FSA.

Approval
This report was approved by the Board on 25 August 2006 and signed on its behalf by:

E. ap Gwilym.

Eurfyl ap Gwilym
Chair of the Remuneration Committee

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Please visit www.isoftplc.com/investor for complete version.

This report to shareholders has been prepared in accordance with the requirements of...

paragraph C.3.3 of the Combined Code and paragraphs 5.1 and 5.2 of the Guidance on Audit Committees prepared by Sir Robert Smith. The report describes the activities of the Audit Committee in meeting these requirements.

06

LORENZO enables Scott to play an active role in managing his condition. At home, using his digital TV and its remote control, he updates his own medical record with details of his blood sugar level and blood pressure. From the TV screen, he can also check when he needs to take his medication.

Continued on page 60.

Terms of reference

The Audit Committee's terms of reference are reviewed from time to time and approved by the Board of iSOFT. They are based on the model terms of reference set out in the Guidance Note produced by the Institute of Chartered Secretaries and Administrators and the guidance notes set out in Sir Robert Smith's report published in January 2003.

The terms of reference cover membership and appointments, meetings, (frequency, quorum, attendees and minutes), duties and responsibilities covering external audit, internal audit, financial reporting, internal controls and risk management systems, whistle blowing, reporting responsibilities, authority (delegated by the Board) and a number of other matters.

Audit Committee membership and experience

The Audit Committee comprises three independent non-executive directors. The members of the Committee are Ken Lever, who was appointed to the Committee as Chairman on 25 July 2005, David Thorpe, who was appointed on 11 May 2004 and Eurfyl ap Gwilym, who was appointed in preparation for the full listing on the London Stock Exchange and served as Chairman until 25 July 2005. Colin Wall was also a member of the committee until the appointment of Ken Lever. The Board has determined that all members of the committee are independent non-executive directors for the purposes of the Combined Code. The members have wide-ranging commercial, financial and management experience that they bring to the work of the Audit Committee. Their biographical details are set out on page 26.

Meetings

The Audit Committee meets at least four times a year and on other occasions as circumstances require. The quorum for the meeting is two members. The Finance Director, representatives of the external auditor and the internal auditor, Ernst & Young LLP, attend the meetings under a standing invitation. The Chairman of the Board, Chief Executive Officer and other directors are able to attend the meetings of the Audit Committee. Other finance and business risk executives attend the meetings and the Company Secretary is Secretary to the Committee. The Audit Committee Chairman reports regularly to the Board on its activities. Four meetings were held during the year and attendance is set out on page 33.

Work of the Committee

The Audit Committee has established an agenda framework which iSOFT believes is vital for maintaining an appropriate focus on the objectives of the Committee. The agenda framework sets out all of the operational duties and responsibilities outlined in the Committee's terms of reference and is based on four regular meetings in September, March, June and November. The areas covered by the agenda framework are as follows:

1. Corporate Governance, including the regular review of the terms of reference and annual evaluation, regulatory issues, review of delegated authorities and review of auditor independence;

2. Business Risk Assurance and internal audit, including the review of the business risk assessment completed by executive management, the review of the internal audit plan and review of internal audit reports;

3. confidential sessions with the external auditor and internal auditor in the absence of executive management;

4. financial reporting, including current accounting and financial reporting matters and review of interim and annual reports and related results' announcements; and

5. external audit and appointment of external auditors, including audit plan, and scope, review of audit fees, cost effectiveness, reports on interim and annual financial statements, audit status reports, management letters and the nature and extent of non-audit services performed by the external auditor.

The audit plan and scope sets out details of the areas to be covered and how the audit is to be conducted. The Chairman of the Audit Committee meets periodically with the external auditor to discuss progress on the audit and the major points arising, and has the opportunity to assess the effectiveness of the process. The Audit Committee is also able to assess the effectiveness of the process through reports made to the Committee by the external auditor.

In addition to the items considered by the Audit Committee under the "agenda framework", during the financial year other important issues considered included regular reviews of the internal control systems and the statement to be made in the Directors' Report and Accounts in respect of internal controls, Group business risk profile, updates on compliance with the Combined Code, and developments in accounting systems. Confidential meetings with representatives of the independent audit and internal audit functions, in the absence of executives, took place during the year.

The Audit Committee met earlier in the year to consider the adoption of International Financial Reporting Standards and following detailed consideration by the Committee, consultation with the external auditor and approval by the Board, the Company announced interim results prepared under IFRS on 8 December 2005. The Company has published comparative information for 2005 originally presented in accordance with UK GAAP but restated in accordance with IFRS.

Non-audit services are ordinarily put out to tender and require the approval of the Chairman of the Audit Committee above certain levels. In those cases where the work was awarded to the external auditor it was concluded that the firm of the independent auditor was best placed to supply such services due to the experience and qualifications of the individuals providing such services and that the best interests of the Company were served by engaging the firm of the independent auditor. The policies adopted by the Audit Committee, including those relating to audit partner rotation and relevant ethical guidance issued by the professional bodies in the Consultative Committee of Accountancy Bodies, in particular that the external auditor should not audit its own firm's work, make management decisions for the Company, create a mutuality of interest nor be put in the position of advocate for the Company, when taken together, provide adequate protection of auditor independence. All fees proposed by the external auditor must be reported to the Audit Committee and prior approval is required from the Chairman of the Audit Committee for any projects with fees in excess of £5,000. Deloitte & Touche LLP have provided advice regarding the Company's operations in India during the year and it is planned that Deloitte & Touche LLP will provide banking advice and tax compliance services to the Company. Deloitte & Touche LLP with Eversheds LLP also undertook on behalf of the Company an investigation into the accounting irregularities as described on page 71. The committee has reviewed the non-audit fees paid to the external auditors which, in aggregate, totalled £125,000 and has deemed that in the year ended 30 April 2006 they do not affect independence.

As noted on page 62, and as detailed in note 1 on page 71, due to a number of limitations, the independent auditors have been unable to give an opinion as to whether the financial statements give a true and fair view in respect of the accounts for the year ended 30 April 2006.

Internal audit function

In the prior year, the Group introduced an internal financial audit function, outsourced to Ernst & Young LLP, to further enhance the existing internal control framework. Work performed to date has included the documentation of a risk assessment and financial controls review for all Group entities, together with verification of this documentation within two territories. It is anticipated that all territories will be subject to verification over the next twelve months. The internal auditors report formally to the Audit Committee.

Approval

The report was approved by the Board on 25 August 2006 and signed on its behalf by:

Ken Lever
Chairman of the Audit Committee

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07

Two weeks after leaving hospital, Scott automatically receives a text message on his mobile phone, informing him that he requires a repeat prescription. Using LORENZO, his GP sends the prescription electronically to Scott's local pharmacy. All in all, a successful outcome for Scott, achieved with the full backing of the latest technology.

Independent Auditors' Report to the members of iSOFT Group plc

We have audited the Group financial statements of iSOFT Group plc for the year ended 30 April 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, and the related notes 1 to 31.

These Group 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 individual company financial statements of iSOFT Group plc for the year ended 30 April 2006.

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and whether the Group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statement on internal control covers 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 the Report of the Directors and the other information contained in the annual report for the above year as described in the contents section, including the unaudited part of the directors' remuneration report, and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report described as having been audited. 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 Company's circumstances, consistently applied and adequately disclosed.

We planned 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 and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to us was limited because of the following significant matters:

Investigations by the Group and Financial Services Authority into accounting irregularities in relation to subsidiaries

Arising from the accounting irregularities in relation to subsidiaries detailed in note 1, the Board has initiated a formal investigation, which may give rise to further investigations by the Company and other parties, together with possible resulting actions by the Company and other parties. Furthermore, the Group passed its findings on the initial investigations to the Financial Services Authority ("FSA"). On 24 August 2006 the Group announced that it has received notification from the FSA that the FSA will be undertaking a formal investigation into the possible accounting irregularities. All these circumstances have limited the ability of the directors to conclude on the completeness or accuracy of transactions recorded in the current and past years. As a result, and in the absence of any alternative evidence available to us, we have been unable to form a view on any possible adjustments to the financial statements that might have been determined had the limitation not existed.

Accounting policy for revenue and cost recognition and lack of associated accounting information
As detailed in notes 1 and 2, the Group has changed its accounting policy for revenue and cost recognition on contracts, as the current Board considers the previous accounting policy to be inappropriate. Under the previous accounting policy the directors deemed it unnecessary to establish a detailed contract costing and review process to measure contract activity. As a result, under the new accounting policy, sufficient and appropriate audit evidence is not available to determine whether revenue and costs are recognised in the income statement and balance sheet to reflect the stage of completion of contracts. In the absence of any alternative evidence available to us, we have been unable to form a view on any possible adjustments to the financial statements that might have been determined had the limitation not existed, including the associated prior period adjustment.

Lack of information on status of delivery of product under the National Programme for IT and the associated capitalisation of development costs
As detailed in notes 1 and 2, the Group has changed its accounting policy for revenue recognition under the National Programme for IT, the new policy being based on the timing of software delivery. Under the previous accounting policy, the directors deemed it unnecessary to record the detailed status of delivery and acceptance of product. In addition, the Company has been unable to obtain conclusive third party confirmation of the status of delivery and acceptance. As a result, under the new accounting policy, sufficient and appropriate audit evidence is not available to determine whether revenue and costs, including the appropriate capitalisation of associated development costs, are recognised in the income statement and balance sheet to reflect contract activity. In the absence of any alternative evidence available to us, we have been unable to form a view on any possible adjustments to the financial statements that might have been determined had the limitation not existed, including the associated prior period adjustment.

Potential for claims from National Programme for IT Local Service Providers ('LSPs') and other claims
As detailed in note 1 and note 29, formal correspondence has been exchanged between a subsidiary company and the LSPs, Accenture (UK) Limited and CSC Computer Sciences Limited, alleging material contractual breach by that company. The ultimate outcome of these potential claims, together with any other claims, cannot presently be determined. As a result, and in the absence of any alternative evidence available to us, we have been unable to form a view on the reasonableness of the lack of provision for such matters in the financial statements.

Going concern
As detailed in note 1, the directors recognise that there are material uncertainties which may cast significant doubt on the Group's ability to continue in operation. Having taken into account these material uncertainties, the directors consider it is appropriate to prepare the financial statements on the going concern basis. In the circumstances of the Group, we have been unable to obtain sufficient and appropriate audit evidence regarding the reasonableness of the directors' assumptions regarding the identified material uncertainties. As a result, and in the absence of any alternative evidence available to us, we have been unable to form a view as to the applicability of the going concern basis, together with the effect on the financial statements should this basis be inappropriate. Any such adjustments would include writing down the carrying value of assets, including goodwill, to their recoverable amount and providing for any further liabilities that might arise.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report described as having been audited.

Opinion: disclaimer on view given by financial statements

Because of the possible effects of the limitations in evidence available to us, we are unable to form an opinion as to whether:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 30 April 2006 and of its loss for the year then ended; and
- the Group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, including comparative information.

In respect of the limitations on our work referred to above we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

In our opinion, having regard to our disclaimer of opinion set out above, the information given in the *Report of the Directors is consistent with the Group* financial statements. The information given in the Report of the Directors includes that specific information presented in the Financial Review, Report of the Chairman and Chief Executive Officer and Corporate Social Responsibility Statement that are cross-referred from the Business Review section of the Report of the Directors.

Separate opinion in relation to IFRS: disclaimer on view given by financial statements

As explained in note 2 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. However, because of the possible effect of the limitations in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 30 April 2006 and of its loss for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
25 August 2006

Financial Statements

2006 Annual Report and Accounts

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Consolidated income statement for the year ended 30 April 2006

	Note	Total 2006 £'000	Total 2005 £'000
Revenue	3	201,695	186,139
Goodwill impairment	4	(351,410)	-
Other operating costs	4	(188,386)	(177,684)
Total operating costs		(539,796)	(177,684)
(Loss)/profit from operations		(338,101)	8,455
Investment revenues	5	3,099	1,254
Finance costs	6	(8,748)	(7,534)
(Loss)/profit before tax		(343,750)	2,175
Tax (charge)/credit	8	(38,432)	3,719
(Loss)/profit for the financial year		(382,182)	5,894
Attributable to:			
Minority interests - equity		357	297
Equity holders of the parent		(382,539)	5,597
(Loss)/profit for the year		(382,182)	5,894

(Loss)/earnings per share

		2006	2005
Basic (loss)/earnings per share	10	(165.1p)	2.6p
Diluted (loss)/earnings per share	10	(165.1p)	2.6p

Consolidated statement of recognised income and expense for the year ended 30 April 2006

	2006 £'000	2005 £'000
Exchange differences on translation of foreign operations	(345)	(2)
Actuarial (losses)/gains on defined benefit pension schemes	(957)	132
Tax on items taken directly to equity	942	(1,231)
Net losses recognised directly in equity	(360)	(1,101)
(Loss)/profit for the year	(382,182)	5,894
Total recognised income and expense for the year	(382,542)	4,793
Attributible to:		
Equity holders of the parent	(382,899)	4,496
Minority interests	357	297
	(382,542)	4,793

Consolidated balance sheet as at 30 April 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Goodwill	11	144,144	481,655
Other intangible assets	11	771	2,354
Property, plant and equipment	12	14,057	12,365
Deferred tax asset	13	10,027	59,112
		168,999	555,486
Current assets			
Inventories		720	1,211
Trade and other receivables	14	66,250	69,809
Cash and cash equivalents		77,543	110,140
		144,513	181,160
Assets held for sale	16	4,000	4,000
Total assets		317,512	740,646
Current liabilities			
Trade and other payables	17	(151,698)	(180,214)
Current tax liabilities		-	(20,611)
Obligations under finance leases	18	(947)	(1,050)
Bank and other loans	18	(47,765)	(29,628)
Short-term provisions	20	(943)	(1,400)
		(201,353)	(232,903)
Liabilities associated with non-current assets classified as held for sale	16	(3,000)	(3,000)
		(204,353)	(235,903)
Net current liabilities		(56,840)	(51,743)
Non-current liabilities			
Bank and other loans	18	(70,149)	(80,224)
Retirement benefit obligation	21	(10,712)	(9,167)
Obligations under finance leases	18	(529)	(834)
Deferred tax liabilities	13	(805)	(3,926)
Other payables		(3,327)	(3,401)
Long-term provisions	20	(2,199)	(2,936)
		(87,721)	(100,488)
Total liabilities		(292,074)	(336,391)
Net assets		25,438	404,255
Equity			
Share capital	22	23,249	22,778
Share premium account	23	53,543	43,082
Own shares	23	(3,758)	-
Merger and other reserves	23	130,742	361,332
Retained earnings	23	(178,948)	(23,412)
Equity attributible to equity holders of the parent		24,828	403,780
Minority interest		610	475
Total equity		25,438	404,255

The financial statements were approved by the Board of Directors and authorised for issue on 25 August 2006. They were signed on its behalf by:

John Weston
Chairman and acting Chief Executive Officer

Gavin James
Group Finance Director

Consolidated cash flow statement for the year ended 30 April 2006

	Note	2006 £'000	2005 £'000
Operating activities			
Cash generated by operations	24	1,946	92,379
Income taxes paid		(17,788)	(9,529)
Interest paid		(4,644)	(4,892)
Net cash flow (used in)/from operating activities		(20,486)	77,958
Investing activities			
Interest received		2,456	1,254
Purchases of property, plant and equipment		(5,717)	(3,495)
Proceeds on disposal of property plant and equipment		37	234
Deferred consideration paid		(241)	(7,315)
Purchase of own shares		(3,758)	-
Acquisition of subsidiaries		(8,250)	(684)
Disposal of assets held for resale		-	2,223
Capitalised development costs		(722)	(2,354)
Net cash used in investing activities		(16,195)	(10,137)
Financing activities			
Dividends paid		(6,030)	(5,560)
Proceeds on issue of shares		7,030	5,874
New loans raised		41,548	1,113
Repayments of obligations under finance leases		(1,199)	(1,421)
Debt issue costs		(66)	(327)
Repayment of loans		(37,195)	(32,394)
Net cash from/(used in) financing activities		4,088	(32,715)
Net (decrease)/increase in cash and cash equivalents		(32,593)	35,106
Exchange differences		(4)	-
Cash and cash equivalents at beginning of year		110,140	75,034
Cash and cash equivalents at end of year		77,543	110,140

Notes to the financial statements

01 Significant matters relating to the basis of preparation of the financial statements

The financial statements are prepared in accordance with International Financial Reporting Standards as detailed in note 2. In preparing these financial statements, the following significant limitations and circumstances were taken into account.

Investigations into accounting irregularities
On 20 July 2006 the Company announced that the Board had commissioned an investigation into possible accounting irregularities. The initial independent investigation was completed on 7 August and concluded that there were grounds for a more formal investigation. The Board also recognise that the commencement of the more formal investigation may give rise to further investigations by the Company and other parties.

The conclusion of the initial investigation was that there is evidence of irregularities in respect of subsidiaries affecting the financial years 2003/4 and 2004/5. The principal effects of this would appear to have been to recognise revenues earlier than they should have been and would not appear to have had any effect on the cash position of the Company.

It is not possible for the Board to conclude what implications, if any, may arise from the conclusion of the investigations into these matters and it is possible that certain adjustments or restatements to the financial statements as presented may arise which could be material to the reported results or statement of financial position as presented.

Accounting policy for revenue and cost recognition and lack of associated accounting information
On 8 June 2006 the Board announced that it had decided to change the Group's accounting policy for revenue recognition to one appropriate to the current commercial situation of the business as described in the Chairman's report and in note 2.

In considering the most appropriate policy to apply the Board considered a number of different polices and practices. The criteria applied in determining the most appropriate policy included an assessment of which policy would best reflect the underlying business contracts, the cash flows and the application of the resources of the business with the objective of ensuring that information could be reported so as to help users to assess business performance and the amount, timing and uncertainty of future cash outflows and cash inflows. The Board consider such information is essential in assessing the ability of the business to generate net cash inflows and provide economic returns to investors.

The revenue recognition policy as historically implemented was that all contracts were unbundled into their constituent parts, and an internally determined proportion of the contract value attributed to implementation and support was recognised evenly over the implementation and support phases of the contract respectively. The balance of the contractual value was attributed to licence revenue and recognised at the date of contract.

The historical implementation of this policy presumed that supply of product licences can be separated from implementation and support. The complex construction of the commercial contracts of the business, the level of resources applied to implementation and support on an ongoing basis and the absence of a reliable third party market in implementation and support of the Company's product have made it increasingly difficult to distinguish between the supply of product licences and implementation and support.

As the current Board has concluded that the previous accounting policy has become inappropriate and did not achieve the criteria and objective set out above it has decided that licence revenues will typically be recognised over the period of implementation, which may range from a few months to a number of years from contract signature, and over the full contract term in the case of full service contracts that are not capable of being unbundled.

Changing the accounting policy requires previously reported revenues to be restated under the newly adopted accounting policy. The nature of the contracts underlying the revenues of the business determines the way in which revenue should be recognised. In the case of implementation projects the licence and implementation revenues are appropriately recognised over the implementation period. In the case of bundled contracts the total revenues of the contract (including licence) are appropriately recognised over the total duration of the contract. The judgement of the Board is that this is the most appropriate way for the Company to recognise revenues on projects.

01 Significant matters relating to the basis of preparation of the financial statements cont...

In accordance with IAS 18, revenue of the business that is earned through the rendering of services should be recognised on a stage of completion basis in line with the activity and costs associated with each of the projects.

Steps have been taken such that for new contractual arrangements the directors believe that it will be possible to capture costs and activity on a contract by contract basis so that the costs and activity can be used as a basis of allocating costs and revenues between accounting periods. Under the previous accounting policy capturing individual contract costs to measure contract activity was not deemed necessary.

Given the historical costing records of the business do not identify activity by contract, the information is not available to enable management to measure revenue on a strict stage of completion basis and therefore the directors have concluded that, in the absence of more reliable data, the most appropriate and practicable basis in the circumstances to recognise revenue on existing contracts is to use time as the basis of recognition. The licence and implementation revenue is therefore spread evenly over the estimated period of the implementation in the case of implementation (unbundled) contracts and over the total contract term in the case of bundled contracts.

The lack of historical records to support the strict allocation of costs and revenues has meant that it is not possible to provide sufficient and appropriate evidence to the independent auditors to demonstrate that revenue is recognised in line with contract activity as required by the new policy.

The cost base of the iSOFT business units has historically been predominantly fixed in nature. The judgement of the Board, given the historical costing records, is that it is currently most appropriate and prudent to treat the costs, of the business as period costs accounting for them in the period they arise.

The Board is of the view that the new accounting policy now reflects an appropriate presentation of revenues. Further, the Board is of the opinion, given the lack of historical records and resulting limitations in information, that spreading revenue evenly over the estimated period of the implementation in the case of implementation contracts and over the total contract term in the case of bundled contracts and treating costs as period costs provides the best available recognition of revenues and presentation of results of the business.

Information concerning the status of delivery under the National Programme for IT
Revenue in relation to the National Programme contracts was formerly recognised according to development work done. The new policy is to recognise revenue based on the timing of software delivery.

The National Programme contracts are product delivery arrangements with a phased release of functionality enhancements over the duration of the contracts, as described more fully on page 76. The licence revenue arising is recognised as the elements of the product are delivered. Given the complexity of the contractual arrangements between Connecting for Health and the LSPs and between the LSPs and iSOFT and the difficulty in measuring and recording delivery of product the Board has been unable to obtain conclusive third party confirmation of the status of delivery.

On the basis of the limited third party evidence that is available and the detailed internal knowledge and records of the iSOFT operational team, the Board believes that in the circumstances it has taken all reasonable steps to ensure that revenue that it has recognised in the accounts is in accordance with the stated accounting policies. However, conclusive third party confirmation of the status of delivery from the LSPs may have given rise to adjustments or restatements to the financial statements as presented which could be material to the reported results or statement of financial position as presented, including the impact on capitalisation of associated development costs.

Potential for claims from National Programme Local Service Providers
As described in the Finance Review and in note 29, the Group has experienced a number of difficulties in the delivery of the National Programme for IT, some of which are outside the control of the Group. Some of these difficulties have resulted in formal correspondence being exchanged between the Company and the LSPs, Accenture and CSC, alleging material contractual breach by the Company. The Company has vigorously denied all of the alleged breaches. To date none of this correspondence has resulted in notice to terminate being given or any formal claims being made by the LSPs.

Notes to the financial statements

01 Significant matters relating to the basis of preparation of the financial statements cont...

The Company has taken legal advice on these matters. However, due to the complexity and nature of the contracts, and differences in interpretation of functional requirements and their delivery and in the absence of any formal claim, it is not possible to establish the likelihood nor the quantum of any potential liability and consequently no specific provision has been made in relation to this matter.

Were any claims, including the potential for claims noted above, to be brought against the Company the Board would continue to deny liability and would defend its position vigorously. Should such claims be substantiated then they could give rise to adjustments to the financial statements as presented, which could be material to reported results, cash flows and statement of financial position.

Going concern
The Board has prepared projected cash flow information for the period ending 12 months from the date of approval of these financial statements. The projections include certain key assumptions made by the directors:

(a) Future sales and margins consistent with prior experience which also take into account the anticipated effect of the current circumstances facing the business.

(b) Significant restructuring of its UK and international operations to generate cost savings from the reduction of resources, the simplification and re-engineering of the Group's core processes and systems and the streamlining and simplification of the Group's product offerings.

(c) Disposal of the Group's non-core activities by certain key dates.

(d) Renegotiation of certain key contractual arrangements.

(e) The satisfaction of the conditions contained in the banking agreement to enable the continuation of the banks facilities described in note 19.

(f) The Group previously derecognised contract financing arrangements as the obligations were considered non-recourse. These obligations have been recognised on the balance sheet as it is now considered appropriate to recognise these as a balance sheet liability. The banking covenants were calculated excluding these derecognised obligations and as such were these obligations to be included in previous covenant calculations the Group would not have been in compliance with its financial covenants. As part of the revised banking agreements, detailed in note 19, a waiver has been provided for any prior breach of covenants. The Directors therefore consider that there is no impact on the availability of its banking facilities.

The nature of the Group's business is such that there can be considerable unpredictable variation and uncertainty regarding the timing and/or occurrence of the matters referred to above, the timing and margin of sales, the quantum and timing of cash flows from new business activity and the achievement of contractual milestones.

In preparing these projections the directors recognise that there are material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

Having taken into account the uncertainties inherent in the assumptions referred to in this note 1, the directors consider that the cash flow projections are compiled on a reasonable basis and that it is appropriate that the financial statements should be prepared on the going concern basis. Future events may give rise to circumstances not foreseen by the stated assumptions such that the use of the going concern basis proves to be inappropriate. Should the going concern basis be inappropriate, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not contain any adjustments that would be required were a satisfactory outcome to the uncertainties, as detailed above, not be achieved. Such adjustments would include writing down the carrying value of assets, including goodwill, to their recoverable amount and providing for any further liabilities that may arise.

Notes to the financial statements

02 General information and significant accounting policies

General information

iSOFT Group plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 129. The nature of the Group's operations and its principal activities are set out on page 25 and in the Financial Review on pages 13 to 23.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in the note below.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 7 Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 8 Scope of IFRS 2

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional disclosures on capital and financial instruments, when the relevant standards come into effect for periods commencing on or after 1 January 2007.

Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 31. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Going concern

The Group's directors have prepared projected cash flow information for the period ending 12 months from the date of approval of these accounts. The projections include certain key assumptions made by the directors as disclosed in note 1.

The Group is currently undergoing a significant restructuring of its UK and international operations, a process which is expected to generate cost savings through, inter alia, the removal of excess resources built up during the Group's development over recent years, the simplification and re-engineering of the Group's core processes and systems, the renegotiation of contractual commitments and the streamlining and simplification of the Group's market offerings. The projected cash flow information assumes that the restructuring plan referred to above will be implemented successfully.

The nature of the Group's business is such that there can be considerable unpredictable variation in the timing and margin of sales, the quantum and timing of cash flows from new business activity and the achievement of contractual milestones. However, on the basis of the projected cash flow information, which assumes the continued careful management of working capital, and provided that the disposal of the Group's non-core activities is completed in the timescale currently envisaged, the directors consider that the Group will continue to operate within the bank facilities currently agreed.

Having taken into account the uncertainties referred to above, the directors consider that the cash flow projections are compiled on a reasonable basis on the assumptions set out in note 1 and it is on that basis that the directors consider it appropriate to prepare the Group's accounts on the going concern basis. The

Notes to the financial statements

accounts do not include any adjustments which may be necessary if the Group were unable to continue to operate.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 April each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the profit and loss account in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority in excess of the minority interest is allocated against the interests of the parent.

The results of subsidiary undertakings acquired or disposed of during a financial year are included from, or up to, the effective date of acquisition or disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by the Group.

Intercompany transactions, balances, and income and expense are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date.

On disposal of a subsidiary, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Recoverable amount is the higher of fair value less costs to sell 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 which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the Group's software development is recognised only if

02 General information and significant accounting policies cont...

all of the following conditions are met:

- an asset is created that can be clearly identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives commencing from the date of first income recognition. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Revenue

The Group's revenues are derived from the sale of software product licences, the attendant installation, maintenance and support revenues and supplies of third-party hardware and software.

The change in revenue recognition policy has been implemented by way of a prior year adjustment as mandated by International Financial Reporting Standard 1. This requires the Group to provide comparable figures prepared on a consistent basis for the financial year ended 30 April 2005. The accounting policy restatement has involved reversing revenues of £76 million, £54 million and £44 million (total: £174 million) which were recognised in the years ended 30 April 2005, 2004 and 2003 or earlier, respectively. Those revenues will now be recognised in future years in accordance with the provisions of the new accounting policy. In calculating the prior year adjustment, note 1 outlines the limitations in the historical data available to the Board.

The Group's policy on revenue recognition is that revenue is recognised only when persuasive evidence of the arrangement exists, the price to the customer is fixed or determinable and collectibility is reasonably assured and there are no material outstanding conditions or contingencies attaching to the receipt of monies due.

The Group enters into certain arrangements involving the delivery and implementation of a given software product against predetermined milestones, and the future maintenance and support thereof. In the case of such arrangements the revenue from the sale of product software licences is not clearly separable from the attendant installation and the revenue for services is recognised on a percentage completion basis over the period of the installation with due regard for future anticipated costs. Support revenues in this regard are recognised from implementation over the remaining period of the arrangement.

The National Programme contract is a product delivery arrangement with a phased release of functionality enhancements over the period of the arrangement. The licence revenue is recognised as the elements of the product are delivered. Implementation and service revenues are recognised in line with the provision of those services, and support revenues on a percentage completion basis over the remainder of the period of the arrangement.

The Group enters into bundled service arrangements whereby it agrees to make certain software applications available for the duration of the arrangement. As the fair values of the services deliverable and maintenance and support to be provided under such supply arrangements are not clearly separable from the software supply, total revenue in relation to the supply arrangement is recognised on a stage of completion basis over the period of the arrangement, subject to the limitations in historical information available outlined in note 1.

Revenue arising from contract extensions involving the granting of a licence to continue to use installed software for an extended time period is recognised on a straight line basis over the extended period. Deferred income is recognised in respect of invoices issued and cash received in advance of revenue recognition.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet

Notes to the financial statements

date are translated at the rates ruling at that date. Translation differences are taken to the profit and loss account.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, results of overseas subsidiaries are translated using the average exchange rate for the period, unless exchange rates fluctuate significantly. The balance sheets of overseas subsidiaries are translated using the closing year end rate. Exchange differences arising, if any, are taken to equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling-denominated assets and liabilities.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts when there is objective evidence that the asset is impaired. The allowance recognised is the difference between the asset's carrying amount and the estimated future cash flows on an undiscounted basis.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Bank and other borrowings, including discounted receivables financing
Interest-bearing bank loans and financing arrangements entered into in respect of specific customer contracts are recorded at the proceeds received, net of direct issue costs.

Finance charges are accounted for on an accrual basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts and options to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised on the Group balance sheet at fair value. The Group has not applied hedge accounting and changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. The fair value of derivative financial instruments at 30 April 2005 and 30 April 2006 was not material.

02 General information and significant accounting policies cont...

Property, plant and equipment

Property, plant and equipment is stated at cost less any applicable discounts. Depreciation is provided at rates calculated to write down the cost of property, plant and equipment over their estimated useful life on a straight-line basis. The annual rates of depreciation, by category of fixed asset, are as follows:

• freehold land and buildings	2%
• fixtures, fittings and equipment	12.5% to 20.0%
• computer equipment	33.3%

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value. Cost includes all costs in bringing each product to its present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Share-based payments

The Group has applied the requirements of IFRS 2, 'Share-based Payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2005.

The Group issues equity-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of a Black-Scholes model or Binomial model, as most appropriate for the terms of the instrument. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The cost in relation to the deferred bonus scheme is charged in the year of performance.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are included in the balance sheet at fair value, or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. These assets are depreciated in accordance with the Group's normal accounting policy for the class of asset concerned. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out on a tri-annual basis and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Multi-employer defined benefit schemes are accounted for as defined contribution schemes when the Group is unable to identify its share of the underlying assets and liabilities of the scheme.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are reviewed on a regular basis and released to profit and loss account where changes in circumstances indicate that a provision is no longer required.

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are in this note above, management has made judgements that those policies that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below) are detailed in note 1.

02 General information and significant accounting policies cont...

Key sources of estimation uncertainty

In addition to the matters described in note 1, 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £144.1 million after an impairment charge of £351.4 million was recognised during the year. Details of the impairment loss calculation are provided in note 11.

Deferred tax

Determining whether a deferred tax asset should be recognised in respect of utilisable tax losses requires an estimation of the future taxable profits of the legal entities in which the tax losses reside. Details of the deferred tax assets recognised are shown in note 13.

03 Segmental analysis

The principal activity of the Group is the development and supply of software application products and related services to the healthcare sector. All turnover and profit/(loss) is generated from this activity.

Revenue

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

	2006 £'000	2005 £'000
Supply of software, maintenance and support services	201,695	186,139
Investment revenue	3,099	1,254
Total revenue	204,794	187,393

03
Segmental analysis
cont...

Geographical operations

	United Kingdom and Ireland 2006 £'000	2005 £'000	Other EU 2006 £'000	2005 £'000	Rest of World 2006 £'000	2005 £'000	Total 2006 £'000	Total 2005 £'000
Total revenue	132,014	118,400	58,048	54,107	36,044	28,300	226,106	200,807
Internal revenue	(4,771)	(2,056)	-	-	(19,640)	(12,612)	(24,411)	(14,668)
External revenue	127,243	116,344	58,048	54,107	16,404	15,688	201,695	186,139
Operating (loss)/profit before goodwill impairment	2,471	(8,638)	5,749	11,740	5,089	5,353	13,309	8,455
Goodwill impairment	(257,574)	-	(64,888)	-	(28,948)	-	(351,410)	-
(Loss)/profit from operations	(255,103)	(8,638)	(59,139)	11,740	(23,859)	5,353	(338,101)	8,455
Investment revenues							3,099	1,254
Finance costs							(8,748)	(7,534)
(Loss)/profit before tax							(343,750)	2,175
Tax charge							(38,432)	3,719
(Loss)/profit for the year							(382,182)	5,894
Net assets/(liabilities)	(104,981)	234,402	115,621	131,416	14,798	38,437	25,438	404,255
Other information								
Capital additions	3,253	2,718	363	462	2,886	880	6,502	4,060
Depreciation	(3,196)	(3,199)	(730)	(751)	(842)	(574)	(4,768)	(4,524)
Amortisation of intangibles	(2,305)	(2,003)	-	-	-	-	(2,305)	(2,003)
Balance sheet								
Segment assets	89,795	378,939	187,916	302,900	39,801	58,807	317,512	740,646
Segment liabilities	(194,776)	(144,537)	(72,295)	(171,484)	(25,003)	(20,370)	(292,074)	(336,391)
Net assets/(liabilities)	(104,981)	234,402	115,621	131,416	14,798	38,437	25,438	404,255

04a Operating costs and profit for the year

Net operating costs

Net operating costs are analysed as follows:

	Note	2006 £'000	2005 £'000
Change in stocks of finished goods		491	2,626
Other external charges		44,576	48,366
Staff costs	7	106,959	88,688
Depreciation of tangible fixed assets		4,768	4,524
Amortisation of development costs		2,305	2,003
Total other operating charges		29,287	31,477
Operating costs before goodwill impairment		188,386	177,684
Goodwill impairment		351,410	-
Total operating costs		539,796	177,684

04b Operating costs and profit for the year

(Loss)/profit for the year

(Loss)/profit for the year is stated after charging/(crediting)

	2006 £'000	2005 £'000
Staff costs	106,959	88,688
Research and development, net of capitalised costs	22,556	15,931
Current service costs in respect of defined benefit scheme	760	676
Loss on disposal of fixed assets	-	350
Foreign exchange gains	(220)	(173)
Foreign exchange losses	54	145
Depreciation of property, plant and equipment		
owned	3,580	3,376
held under finance leases	1,188	1,148
Amortisation of development costs	2,305	2,003
Impairment of goodwill	351,410	-
Operating lease rentals		
Premises	4,193	3,085
Vehicles and equipment	2,083	1,950

The following services were provided by the Group's auditor:

	2006 £'000	2005 £'000
Statutory audit fees	825	303
Non-audit fees - further assurance work	125	32
	950	335

Included in the analysis above are fees of £34,000 (2005: £25,000) in respect of the parent company. All individual pieces of non-audit work above £5,000 must receive prior authorisation from the Audit Committee.

In the prior year the previous auditor, RSM Robson Rhodes LLP, were paid £303,000 for audit services and £32,000 for non audit services.

Notes to the financial statements

05 Investment revenues

	2006 £'000	2005 £'000
Interest receivable comprises:		
Bank interest	2,439	1,120
Other interest and foreign exchange	660	134
	3,099	1,254

06 Finance costs

	2006 £'000	2005 £'000
Finance costs comprise:		
Bank loans overdrafts and other loans	7,983	6,779
Amortisation of loan arrangement fees	239	161
Pension fund finance costs	330	361
Finance leases	196	233
	8,748	7,534

07a Staff costs

Staff costs (including executive directors) during the year were as follows:

	2006 £'000	2005 £'000
Wages and salaries	94,953	76,021
Social security costs	8,384	9,744
Other pension costs	3,622	2,923
	106,959	88,688

Defined contribution pension costs totalled £2,862,000 (2005: £2,247,000).

07b Staff costs

The average monthly number of employees (including executive directors) employed by the Group during the year was:

	2006 Number	2005 Number
Development	1,454	1,019
Sales and marketing	148	157
Installation and project management	1,289	935
Administration and services	333	435
	3,224	2,546

Notes to the financial statements

08a Analysis of tax charge/(credit) in the year
Tax

	2006 £'000	2005 £'000
United Kingdom corporation tax		
Current tax on (loss)/profit for the year	(4,431)	11,958
Adjustments in respect of prior years	(1,782)	(3,020)
	(6,213)	8,938
Overseas taxation		
Current tax on (loss)/profit for the year	(43)	8,298
Adjustments in respect of prior years	(140)	(627)
	(183)	7,671
Total current taxation	(6,396)	16,609
Deferred taxation		
Current year - United Kingdom	44,600	(17,528)
Current year - overseas	2,503	(4,701)
	47,103	(22,229)
Prior year - United Kingdom	(2,550)	1,328
Prior year - overseas	275	573
	(2,275)	1,901
	44,828	(20,328)
Tax charge/(credit)	38,432	(3,719)

08b The charge (credit) for the year can be reconciled to the (loss)/profit per income statement as follows
Tax

	2006 £'000	2005 £'000
(Loss)/profit before tax	(343,750)	2,175
Loss on ordinary activities: tax thereon at 30%	(103,125)	653
Effects of:		
Non-taxable income and expenditure	1,574	(1,135)
Goodwill impairment not deductible	100,593	-
Current year tax losses carried forward not provided	37,393	1,847
Difference in tax rates in overseas companies	(1,672)	(683)
Adjustment in respect of prior period deferred tax	(2,275)	1,901
Adjustment in respect of prior period corporation tax	(1,922)	(3,647)
Other current year deferred tax movements not provided	7,866	(2,655)
Tax charge/(credit) for the year	38,432	(3,719)

In addition to the amounts charged to the income statement, tax related to certain share options and adjustments to reserves totalling £942,000 has been credited directly to equity (2005: £1,231,000 charge).

UK Corporation tax is calculated at 30% (2005:30%) of the estimated assessable profit/(loss) for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

Notes to the financial statements

09
Dividends

	2006 £'000	2005 £'000
Equity dividends paid		
Ordinary shares of £0.10 each:		
Final dividend for year ended 30 April 2005 of 1.82p per share (2004: 1.70p)	4,176	3,832
Interim dividend for the year ended 30 April 2006 of 0.80p per share (2005: 0.75p)	1,854	1,728
	6,030	5,560

No final dividend will be declared for the year ended 30 April 2006.

10
(Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of shares in issue. The weighted average number of shares for the calculation of the diluted loss per share in the year ended 30 April 2006 is the same as that for the basic loss per share, because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33. Details of options outstanding, which are currently anti-dilutive are included in note 22. The dilutive effect of options in 2005 was an additional 2,614,000 shares.

	Loss £'000	Weighted average number of shares '000	2006 Loss per share amount pence	Earnings £'000	Weighted average number of shares '000	2005 Earnings per share amount pence
Basic (loss)/earnings per share						
(Loss)/earnings attributable to shareholders	(382,182)	231,550	(165.1)	5,894	227,123	2.6
Diluted (loss)/earnings per share						
(Loss)/earnings attributable to shareholders	(382,182)	231,550	(165.1)	5,894	229,737	2.6

11 Intangible fixed assets

	Goodwill £'000	Other intangibles £'000
Cost		
At 1 May 2004	494,417	2,003
Additions - internally developed	-	2,354
Adjustment in respect of prior year provisional fair values	7,098	-
Additions - acquired	1,320	-
At 1 May 2005	502,835	4,357
Additions	13,899	722
At 30 April 2006	516,734	5,079
Amortisation and impairment		
At 1 May 2004	21,180	-
Amortisation	-	2,003
At 1 May 2005	21,180	2,003
Amortisation and impairment	351,410	2,305
At 30 April 2006	372,590	4,308
Carrying amount		
At 30 April 2006	144,144	771
At 1 May 2005	481,655	2,354

Goodwill

Acquisition accounting has been adopted in respect of all business combinations. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

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

	2006 £'000	2005 £'000
UK and Ireland	282,966	282,966
Other European Union	180,667	167,487
Rest of World	31,921	31,202
	495,554	481,655

Impairment

The recoverable amounts of the CGUs are determined from value in use calculations, derived from the present value of future cash flows generated by the CGUs. There are a number of assumptions and estimates involved in calculating the present value of future cash flows, including but not restricted to the following:

- growth rates applied to EBITDA, used as the basis for the future cash flows;
- the long term growth rates for the Group's key markets applied into perpetuity;
- the discount rate applied to the cash flows to calculate their present value; and
- the estimated recoverable value for any CGUs which the Board expects to divest within the time frame considered.

Notes to the financial statements

11 Intangible fixed assets cont...

Although the Board are satisfied that the assumptions used are appropriate to the current circumstances of the Group, changes to these key assumptions or estimates could significantly affect the result of the impairment calculation. The basis of the assumptions used is as follows:

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 business. The growth rates are based on management forecasts for the specific markets.

The Group prepares pre-tax cash flow forecasts derived from the most recent financial forecasts approved by management for the next four years and extrapolates cash flows for future periods based on growth rates varying from 0%-5%. Management consider that the rates used do not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast pre-tax cash flows ranges from 13%-20% and represents management's current best estimate of the weighted average cost of capital in each of the years for which cash forecasts have been discounted.

The carrying amount of goodwill at the balance sheet date was £144.1 million after an impairment loss of £351.4 million was recognised during the current year.

Other intangibles

Other intangibles represent capitalised development costs. The amortisation period for development costs is dependent on the expected life of the related product release, which is currently estimated at one year.

Acquisitions

i. Acquisition of Novasoft Sanidad S.A.

On 11 October 2005, iSOFT acquired 100% of the Sanidad healthcare operations of Novasoft. Acquisition accounting was adopted. The book values and provisional fair values are as follows:

	Book value £'000	Revaluations £'000	Provisional fair value £'000
Intangible fixed assets	209	(203)	6
Tangible fixed assets	86	(79)	7
Investments	13	-	13
Debtors	5,362	(565)	4,797
Stock	4	(4)	-
Overdraft	(1,867)	-	(1,867)
Corporation tax	(56)	-	(56)
Trade and other creditors	(3,163)	(142)	(3,305)
Debt	(5)	-	(5)
Net liabilities acquired	583	(993)	(410)
Goodwill			13,066
Consideration			12,656
Satisfied by:			
470,199 shares issued at fair value			2,039
Acquisition costs			436
Cash			6,123
Intercompany liabilities acquired			1,529
Fair value of deferred consideration			2,529
			12,656

11 Intangible fixed assets cont...

No adjustments were required to align the accounting policies of the acquitted entity with those of the Group.

Fair value adjustments comprise:

- Write off of establishment expenses and intangible assets of £203,000.
- Write off of fixed assets with a net book value of £79,000.
- Additional provision for bad and doubtful debts of £501,000, together with write off of deferred expenses of £39,000 and irrecoverable Novasoft balances of £25,000.
- Write off of obsolete stock of £4,000.
- Additional provision for goods and services not invoiced of £74,000 together with additional staff costs of £68,000.

From 11 October 2005 to 30 April 2006, the acquired business contributed £4,419,000 to turnover, £21,000 to loss from operations and £158,000 to loss before taxation. The post acquisition cash outflow was £1,606,000.

In the 12 months ended 30 April 2006 revenue and loss before tax for the acquired entity totalled £8,458,000 and £501,000 respectively.

ii Other acquisitions

Further investment in iSOFT R&D Private Limited

On 16 August 2005, the Group increased its stake in iSOFT R&D Private Limited ("iSOFT R&D") from 88% to 94% through the issue of 200,000 shares at a fair value of £847,500.

Changes in interests in a controlled entity that do not result in a change of control do not fall within the definition of a business combination under IFRS 3 and accounting for such transactions is not yet covered by any authoritative IASB guidance. Goodwill arising on this transaction has therefore been calculated as the difference between the consideration paid and the book value of the assets acquired as follows:

	£'000
Consideration - satisfied in shares	848
Additional net assets acquired	(418)
Goodwill on increase in stake	430

The minority interest shareholders, who are also employees of the Group, hold a put option in respect of their shareholding, whereby the Group may be required to purchase the remaining 6% minority interest at any time between 31 July 2006 and 31 July 2009 for consideration of shares in iSOFT Group plc.

iii. GAP Management AG additional goodwill

As part of the Torex acquisition in December 2003, iSOFT accrued £918,000 deferred consideration in respect of the acquisition of GAP Management AG. All deferred consideration in respect of this transaction was settled by the issue of 294,559 shares in the year at a fair value of £1,032,000. Additional goodwill of £114,000 arose as a result of the transaction.

iv. HAS PTY intellectual property

As part of the Torex acquisition in December 2003, iSOFT acquired rights to market certain products with a royalty payable to a third-party. An additional payment of £289,000 was made to buy out the third-party arrangement.

The profits and cash flows arising from the other acquisitions are not material to the Group.

Notes to the financial statements

12 Property, plant and equipment

	Freehold land and buildings £'000	Fixtures fittings and equipment £'000	Total £'000
Cost			
At 1 May 2004	4,443	37,054	41,497
Additions	231	3,829	4,060
Disposals	(24)	(3,078)	(3,102)
Exchange adjustments	-	(1)	(1)
At 1 May 2005	4,650	37,804	42,454
Acquisition of subsidiaries	-	7	7
Additions	-	6,502	6,502
Disposals	-	(496)	(496)
Exchange adjustments	-	111	111
At 30 April 2006	4,650	43,928	48,578
Accumulated depreciation			
At 1 May 2004	981	26,984	27,965
Disposals	(24)	(2,494)	(2,518)
Charge for the year	262	4,262	4,524
Fair value adjustments	-	119	119
Exchange adjustments	-	(1)	(1)
At 1 May 2005	1,219	28,870	30,089
Disposals	-	(459)	(459)
Charge for the year	251	4,517	4,768
Exchange adjustments	-	123	123
At 30 April 2006	1,470	33,051	34,521
Carrying amount			
At 30 April 2006	3,180	10,877	14,057
At 1 May 2005	3,431	8,934	12,365

Additions to plant and equipment during the year include £785,000 financed by new finance leases.
At the balance sheet date, the net book value of property, plant and equipment included £1,376,000 (2005: £2,068,000) in respect of assets held under finance leases. Depreciation charged in the period on those assets amounted to £1,188,000 (2005: £1,148,000).

Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportionate ownership interest is given in note 4 of the parent Company's individual financial statements.

13 Deferred tax asset/(liability)

Deferred tax comprises:

	2006 £'000	2005 £'000
Assets		
Utilisable losses	122	48,399
Short-term timing differences	6,291	5,399
Pension accrual	3,215	2,750
Unexercised share options	273	2,420
Holiday pay	126	144
Deferred tax asset	10,027	59,112
Liabilities		
Accelerated depreciation allowances	(574)	(921)
Development costs	(231)	(706)
Rolled over gains	-	(2,299)
	(805)	(3,926)
Net deferred tax asset	9,222	55,186

The movement in deferred tax comprises

	£'000
At 1 May 2004	40,051
Income statement credit	22,229
Amount credited to pre acquisition tax	(4,039)
Amount charged to equity	(1,154)
Income statement charge regarding prior year	(1,901)
Balance at 1 May 2005	55,186
Amount charged to income statement	(47,103)
Amount charged to equity	(1,208)
Exchange movements	72
Income statement credit regarding prior year	2,275
Balance at 30 April 2006	9,222

Notes to the financial statements

13 Deferred tax asset/(liability) cont...

The movement is split as follows:

	Accelerated capital allowances £000	Short term timing differences £000	Losses £000	Pension £000	Share options £000	Development costs £000	Holiday pay £000	Rolled over gains £000	Total £000
As at 1 May 2004	435	5,600	31,218	2,622	2,924	(601)	152	(2,299)	40,051
Income statement movement	(1,201)	3,807	17,057	128	651	(105)	(8)	-	20,329
Torex fair value adjustment	(136)	(3,997)	136	-	-	-	-	-	(3,997)
Exchange movements	(19)	(11)	(12)	-	-	-	-	-	(42)
Equity movement	-	-	-	-	(1,155)	-	-	-	(1,155)
As at 30 April 2005	(921)	5,399	48,399	2,750	2,420	(706)	144	(2,299)	55,186
Income statement movement	314	854	(48,277)	176	(651)	475	(18)	2,299	(44,828)
Exchange movements	33	39	-	-	-	-	-	-	72
Equity movement	-	-	-	288	(1,496)	-	-	-	(1,208)
As at 30 April 2006	(574)	6,292	122	3,214	273	(231)	126	-	9,222

At the balance sheet date, the Group has potential net deferred tax assets, principally arising from losses and short term timing differences totaling £69,069,000 (2005: £70,651,000) for offset against future profits. A deferred tax asset has been recognised in respect of £9,222,000 (2005: £55,186,000) of such losses and timing differences. No deferred tax has been recognised in respect of the remaining £59,847,000 losses as their utilisation cannot be considered more likely than not.

14 Trade and other receivables

	2006 £'000	2005 £'000
Trade debtors	34,405	43,667
Corporation tax recoverable	5,636	-
Other debtors	1,369	4,478
Prepayments and accrued income	24,840	21,664
	66,250	69,809

The average credit period taken in relation to contract services is 75 days (2005: 67 days). No interest is charged on the receivables. Allowance has been made for estimated irrecoverable amounts determined by reference to default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

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.

Credit risk is focused on a small number of high value contracts, which are long-term in nature. Outside these contracts the potential exposure is spread over a large number of customers.

15 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

16 Assets held for sale

	2006 £'000	2005 £'000
Property held for resale	4,000	4,000
Liabilities associated with assets held for sale	(3,000)	(3,000)

The property held for resale relates to a property acquired on the merger with Torex, which is in the process of disposal.

17 Trade and other payables

	2006 £'000	2005 £'000
Trade creditors	13,626	5,189
Other taxation and social security	11,158	23,826
Accruals and other creditors	27,178	22,964
Deferred income	96,814	126,694
Deferred consideration	2,922	1,541
	151,698	180,214

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2005: 23 days).

Deferred income represents invoices issued and cash received in advance of revenue recognition.

Deferred consideration, of which £2,922,000 (2005: £1,541,000) is payable within one year and £nil (2005: £74,000) is payable after one year, comprises:

- £79,000 (2005: £324,000) in respect of the Torex acquisition of HAS Solutions Pty Limited ("HAS").
- £nil (2005: £918,000) in respect of the Torex acquisition of GAP Management AG on 29 May 2002.
- £314,000 (2005: £373,000) relating to the acquisition of i-Health on 9 January 2004. The deferred consideration is payable based on proportion of revenue in each of the five years ending 31 December 2008. The amount included in the financial statements represents the Director's estimate of the amounts that will become payable under the terms of the sale and purchase agreement. The maximum potential deferred consideration payable under the terms of the sale and purchase agreement is approximately £8,700,000.
- £2,529,000 in respect of the maximum amount still potentially payable for the acquisition of Novasoft Sanidad on 11 October 2005.

Notes to the financial statements

18 Bank and other loans

	2006 £'000	2005 £'000
Due within one year:		
Other loans	18,639	15,822
Bank loans	28,000	12,680
Unsecured loan notes	1,126	1,126
Finance leases	947	1,050
	48,712	30,678
Due after one year:		
Bank loans	26,747	38,226
Other loans	43,402	40,872
Unsecured loan notes	-	1,126
Finance leases	529	834
	70,678	81,058
Total	119,390	111,736

All of the Group bank loans and overdraft are secured by a floating charge over the assets of the Group and are subject to interest at between 0.65% and 1.125% over the bank's base rate dependent on the level of the Group's net debt position.

19 Financial assets and liabilities

	Fixed interest rate £'000	Floating interest rate £'000	Non-interest bearing £'000	2006 Total £'000	Fixed Interest Rate £'000	Floating interest rate £'000	Non-interest bearing £'000	2005 Total £'000
Loans	62,041	54,747	1,126	117,914	56,694	50,906	2,252	109,852
Finance leases	1,476	-	-	1,476	1,884	-	-	1,884
Deferred consideration	-	-	2,922	2,922	-	-	1,615	1,615
Provisions	-	-	3,142	3,142	-	-	4,336	4,336
At 30 April	63,517	54,747	7,190	125,454	58,578	50,906	8,203	117,687

The Group's financial assets and liabilities comprise bank borrowings, cash and various items, such as trade debtors, trade creditors etc. that arise directly from its operations. Short-term debtors and creditors have been excluded from all of the following disclosures except in relation to currency risk. The main risks arising from, and impacted by, the financial assets and liabilities of the Group are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing these risks.

19 Financial assets and liabilities cont...

Net debt comprises:

	2006 £'000	2005 £'000
Drawings under revolving credit facility[1]	15,747	-
Term loans	39,000	50,906
Finance lease liabilities	1,476	1,884
Contract finance arrangements	62,041	56,694
Loan notes	1,126	2,252
	119,390	111,736
Cash	(77,543)	(110,140)
Net debt	41,847	1,596

1 Letters of credit and guarantees of £88.2m (2005: £73.1m) were provided utilising the revolving credit facility.

The Group is exposed to fair value risk in respect of its fixed rate financial assets and liabilities and cash flow interest rate risk in respect of its floating rate liabilities.

The weighted average interest rate on fixed rate borrowings was 4.13% (2005: 4.17.%) and the weighted average period to maturity was 2.31 years (2005: 2.10 years). The weighted average period to maturity on non-interest bearing financial liabilities was 4.8 years (2005: 5.3 years). The effective interest rate for financial liabilities ranges from 4% to 10%.

Financial assets

The only financial assets held by the Group are cash at bank. Amounts held at the year end were:

	2006 £'000	2005 £'000
Sterling	62,155	45,215
Euro	10,926	58,709
Australian Dollar	2,056	3,441
New Zealand Dollar	71	432
Singapore Dollar	154	535
Swiss Franc	575	466
Indian Rupee	877	834
Hong Kong Dollar	359	218
Canadian Dollar	16	129
US Dollar	110	12
South African Rand	177	114
Norwegian Kroner	67	35
	77,543	110,140

All cash is at floating rates based on relevant national LIBID equivalents or government bond rates.

Currency risk

The Group is exposed to translation and transaction foreign exchange risk. The Group regularly reviews its exposure to translation risk and where appropriate will match this risk with an appropriate level of borrowings in the same currency. From time to time the Group takes out forward foreign exchange contracts and options to hedge foreign currency transaction exposures. At 30 April 2005 and 2006 the fair value of currency hedging arrangements was not material.

Notes to the financial statements

19 Financial assets and liabilities cont...

There are net foreign currency monetary assets/(liabilities) held by subsidiaries with a functional currency of sterling of £1,109,000 (2005: £32,118,000) denominated in euros, £1,000 (2005: £4,525,000) denominated in Australian dollars, and £177,000 (2005: £777,000) denominated in South African Rand. Receipts and payments are made in these respective currencies in the normal course of business.

Liquidity risk

It is the Group's policy to maintain a mix of short, medium and long term borrowings with its bankers. Flexibility is achieved by the use of a revolving credit facility and a fixed term loan facility. Since the year end the Group agreed revised terms for its facilities with its bankers, details of which are set out below.

At the balance sheet date the Group had a term loan of £39,000,000 and a multi-currency revolving credit facility of £105,000,000. The term loan is repayable in quarterly payments which commenced in August 2004 with the final payment scheduled for September 2008. The revolving credit facility was also subject to review in September 2008. As at 30 April 2006, £789,000 of the revolving credit facility was unused by the Group.

Revision of bank facilities

In August 2006, the Group secured the revision of £141 million of facilities. The facilities following the revision include:

- £105 million revolving credit facility;
- £36 million term loan facility with no further amortisation; and
- £25 million facility, available following disposal of non-core assets

The maturity date of the above facilities has been revised to 14 November 2007. The financial terms have also been amended to better reflect the Group's revised business expectations and revenue recognition policies.

Warrants over 3.7% of the issued Share Capital of the business are to be granted to the lender with an exercise price of 10 pence per share as a condition of the new facilities. The warrants will be exercisable between issue and 36 months from the date of the revision of the facilities, however any shares acquired on exercise cannot be sold until six months following the date of the revision of the facilities. An exit fee of £15 million is payable at the end of the facility, on refinancing or on change of control of the Company, and if the warrants are not issued prior to 31 October 2006. If the warrants are issued prior to 31 October 2006 then no exit fee is payable. The issue of these warrants will require shareholder approval, which will be sought at the AGM. Additionally, further fees are payable on facilities outstanding post 31 December 2006. These additional fees are payable at the end of the facility term or, if earlier, at the date of any refinancing of the facilities. These fees, calculated on the total facility available, are 5.0% per annum for the three months to 31 March 2007, 7.5% per annum for the three months to 30 June 2007, and 10.0% per annum thereafter.

The costs of refinancing are not included in the financial statements for the year ended 30 April 2006 and are estimated to include an amendment fee of £1.2 million, the write off of £0.6 million in unamortised fees and professional fees of approximately £1.0 million. The cost of interest will increase in accordance with the revised margins. Margins on debt will now range between 200 and 450 basis points depending on the usage of different elements of the facilities. The financial covenants applicable to the revised facilities relate to key performance indicators (KPIs) such as rolling EBITDA and the reduction in letters of credit. To assist in the monitoring of the KPIs,further financial and non-financial information are to be provided to the lenders on a periodic basis. In addition the facilities may be terminated in the event of certain actual or threatened litigation, termination of material contracts or the exercise of step in rights. As part of the revision to the facilities a waiver of any prior breaches of covenants has been provided.

The directors have undertaken to pursue a refinancing of the Group and, if satisfactory progress is not made in the remainder of the current financial year, will explore the other strategic options open to the Group including the disposal of some or all of the Group's business.

The new terms will provide the Group with a period of stability during which the corporate finance strategy of the Group can be considered and executed as required by the banking agreements. Additionally the revised banking agreements include mandatory prepayments relating to planned disposals, additional covenants relating to material contracts, additional reporting requirements and waivers of any previous breaches of financial covenants.

Notes to the financial statements

19 Financial assets and liabilities cont...

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short term trade creditors and accruals was as follows:

	Bank and other loans £'000	Loan notes £'000	Finance leases £'000	Other £'000	2006 Total £'000	Bank and other loans £'000	Loan notes £'000	Finance leases £'000	Other £'000	2005 Total £'000
Due within one year, or on demand	46,639	1,126	947	3,865	52,577	28,502	1,126	1,050	2,901	33,579
Due after one year but not more than two years	26,996	-	304	487	27,787	25,525	1,126	775	729	28,155
Due after two years but not more than five years	38,200	-	225	885	39,310	51,677	-	59	1,153	52,889
Due in more than five years	4,953	-	-	827	5,780	1,895	-	-	1,168	3,063
At 30 April	116,788	1,126	1,476	6,064	125,454	107,599	2,252	1,884	5,951	117,686

Other financial liabilities represent deferred consideration payable of £2,922,000 (2005: £1,615,000), the Group's restructuring provision of £115,000 (2005: £407,000) and the Group's property provisions of £3,027,000 (2005: £3,929,000).

Obligations under finance leases

	Minimum lease payments 2006 £'000	Minimum lease payments 2005 £'000	Present value of lease payments 2006 £'000	Present value of lease payments 2005 £'000
Amounts payable under finance leases:				
Within one year	1,030	1,204	947	1,050
In the second to fifth years inclusive	554	868	529	834
	1,584	2,072	1,476	1,884
Less: future finance charges	(108)	(188)	-	-
Present value of lease obligations	1,476	1,884	1,476	1,884
Less: Amount due within 12 months			(947)	(1,050)
Amount due for settlement after 12 months			529	834

The Group has leased certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 30 April 2006, the average effective borrowing rate was 9.56% (2005: 9.36%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount. There is no difference between the book value and fair value of the aforementioned financial instruments.

Notes to the financial statements

20 Provisions for liabilities and charges

	Restructuring £'000	Property £'000	Total £'000
At 1 May 2004	7,280	3,207	10,487
Fair value adjustment	-	1,271	1,271
Utilised	(5,589)	(549)	(6,138)
Credited to profit and loss account	(1,284)	-	(1,284)
At 30 April 2005	407	3,929	4,336
Utilised	(108)	(725)	(833)
Credited to profit and loss account	(184)	(177)	(361)
At 30 April 2006	115	3,027	3,142

	2006 £'000	2005 £'000
Included in current liabilities	943	1,400
Included in non-current liabilities	2,199	2,936
	3,142	4,336

The restructuring provision represents the remaining cost of the restructuring of the Group following the merger with Torex on 23 December 2003. The provision held in respect of properties represents the estimated cost of exiting a number of vacant properties held by the Group of £2,102,000 (2005: £2,806,000) and the provision for leasehold dilapidations on a number of the Group's leasehold properties of £925,000 (2005: £1,123,000).

The anticipated timing of outflows in respect of provisions is as follows:

	£'000
Within 1 year	943
Within 1-2 years	487
Within 2-5 years	885
After more than 5 years	827
	3,142

21a Defined benefit pension schemes

Assumptions and scheme deficit

The Group has a mixture of defined benefit and defined contribution schemes, the former having been acquired as part of the merger with Torex. The assets of the Torex Medical Systems (TMS) defined benefit scheme are held in a separate trustee administered fund. Full actuarial valuations of the scheme are undertaken on a tri-annual basis. The last completed full actuarial valuation was at 1 January 2005. The most recent actuarial valuation of the scheme for IAS 19 disclosures was at 30 April 2006. The IAS 19 valuation of the TMS scheme used the projected unit method and was carried out by KPMG, professionally qualified actuaries, using the following assumptions:

	2006 %	2005 %
Rate of increase in pensionable salaries	4.0	4.3
Rate of increase in pensions in payment and deferment	2.9	2.8
Discount rate	5.25	5.4
Inflation assumption	2.9	2.8
Uplift on liabilities for mortality assumptions	5.0	5.0

The fair value of the assets of the scheme and the weighted average expected return were:

	Long term rate of return expected at 30 April 2006 %	Value at 30 April 2006 £'000	Long term rate of return expected at 30 April 2005 %	Value at 30 April 2005 £'000
Equities	7.5	12,723	7.5	9,626
Bonds	4.7	1,372	4.7	1,179
Insurance policy	5.0	1,319	5.0	1,256
Other	3.75	833	3.75	751
Total market value of assets		16,247		12,812
Present value of scheme liabilities		(26,959)		(21,979)
Deficit in the scheme		(10,712)		(9,167)

The long-term rate of return expected on the various classes of scheme asset is set out above. For bonds and cash balance the market yields at the balance sheet date are known and the overall expected rate for bonds will therefore reflect the actual portfolio of bonds held by the scheme.

For equities the future yield is subjective. It is usually expected that the long term return on equities will be higher than the return from bonds as a result of the equity-risk premium. The rates have remained unchanged year on year as the yield on Government bonds has been relatively unchanged.

Notes to the financial statements

21b Defined benefit pension schemes

Total expense recognised in profit and loss account

	2006 £'000	2005 £'000
Current service cost	760	676
Interest on obligations	1,196	1,174
Expected return on assets	(866)	(813)
Total operating charge	1,090	1,037

A charge for the year of £760,000 (2005: £676,000) has been included in wages and salaries costs and £330,000 (2005: £361,000) has been included in finance costs. Actuarial gains and losses have been included in the statement of recognised income and expense.

21c Defined benefit pension schemes

Changes in the present value of the defined benefit obligation

	2006 £'000	2005 £'000
Opening defined benefit obligation	21,979	20,537
Service cost	760	676
Interest cost	1,196	1,174
Actuarial losses	3,594	71
Employee element of service cost	161	182
Benefits paid	(731)	(661)
Closing defined benefit obligation	26,959	21,979

21d Defined benefit pension schemes

Movement in fair value of scheme assets during the year

	2006 £'000	2005 £'000
Opening fair value of assets	12,812	11,796
Expected return	866	813
Actuarial gains	2,637	203
Contributions by employer	502	479
Employee contributions	161	182
Less benefits paid	(731)	(661)
Closing fair value of assets	16,247	12,812

21e Defined benefit pension schemes

History of experience gains and losses:

	2006	2005
Difference between the actual and expected return on scheme assets:		
Amount (£'000)	2,637	203
Percentage of scheme assets	16%	2%
Experience gains/(losses) on scheme liabilities:		
Amount (£'000)	(1,665)	645
Percentage of the present value of the scheme liabilities	-6%	3%

The directors anticipate that contributions to the scheme in the year to 30 April 2007 will be approximately £1,300,000.

21f Defined benefit pension schemes

Overseas arrangements

As a result of the merger with Torex, the Group also acquired pension obligations in the Netherlands. iSOFT Netherlands BV participates in an industry-wide defined benefit pension plan, known as the PGGM. The PGGM provides pension benefits related to final pay at retirement for approximately 1.8 million people, who are current or former employees in the healthcare and social work sector in the Netherlands. The PGGM is a multi-employer plan under which iSOFT Netherlands BV is unable to identify its share of the underlying assets and liabilities, and the Group has therefore adopted defined contribution accounting as permitted by IAS 19. The premiums paid by the employer for the year were €1,311,000 (approximately £895,000). The employer's contributions are expected to increase by up to 15% in the foreseeable future to restore the funding level of the PGGM in respect of past service benefits to its target level. Non-current liabilities in the amount of £3,327,000 (2005: £3,327,000) have been recognised in respect of this scheme within other payables.

22 Share capital

	2006 £	2005 £
Authorised		
350,000,000 (2005: 350,000,000) ordinary shares of £0.10 each	**35,000,000**	35,000,000

	2006 £	2005 £
Allotted, called up and fully paid		
232,485,722 (2005: 227,783,124) ordinary shares of £0.10 each	**23,248,572**	22,778,312

Shares issued during the period

On 16 August 2005, the Company allotted 200,000 shares at a fair value of £847,500 in consideration for an additional 6% stake in iSOFT R&D Private Limited (see note 11).

On 12 October 2005, the Company issued 470,199 shares at a fair value of £2,039,000 in respect of the acquisition of Novasoft Sanidad S.A.

On 21 October 2005, the Company issued 294,559 shares at a fair value of £1,031,781 in respect of the settlement of GAP deferred consideration.

3,737,840 shares have been issued during the year to satisfy the Company's requirements under the Group's share option and deferred share bonus schemes. Cash consideration received was £7,030,000 and the weighted average share price on the date of exercise was £4.09.

Share options

The following options are outstanding under the Company's unapproved and approved share option schemes. Exercise of these options is subject to employees meeting individual performance criteria and also to the performance of the Group measured over three years from the date of grant. Options include directors' share options. Executive options are granted at market value at the date of grant.

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
11 Jul 00	120,000*	110.0	10 Jul 01	11 Jul 03	10 Jul 10
13 Apr 01	50,000*	189.0	12 Apr 02	13 Apr 04	12 Apr 11
11 Oct 01	210,000*	217.5	10 Oct 02	11 Oct 04	10 Oct 11
30 Sep 02	500,000*	151.3	29 Sep 03	30 Sep 05	29 Sep 12
25 Mar 04	1,697,958	338.0	24 Mar 05	25 Mar 07	24 Mar 14
09 Feb 05	4,156,000	371.7	08 Feb 06	09 Feb 08	08 Feb 15
30 Jun 05	250,000	423.8	29 Jun 06	30 Jun 08	29 Jun 15
28 Jul 05	1,009,500	418.0	27 Jul 06	28 Jul 08	27 Jul 15

Notes to the financial statements

22
Share capital
cont...

The following Torex share options were rolled over into options over iSOFT Group shares at the time of the merger and are still outstanding.

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
09 Feb 00	37,461*	295.67	23 Dec 03	09 Feb 03	08 Feb 10
15 Mar 01	106,145*	374.46	23 Dec 03	15 Mar 04	14 Mar 11
27 Feb 02	111,453*	418.27	23 Dec 03	27 Feb 05	26 Feb 12

In addition to the options above, 1,037,578 options were outstanding in respect of the Company's savings related share option scheme, 98,398 have an exercise price of 239.0 pence (first exercisable in 2006), 626,623 have an exercise price of 266.0 pence (first exercisable in 2007), and 312,557 have an exercise price of 348.5 pence (first exercisable in 2008). These options are granted at a 20% discount to market value at the date of grant.

Furthermore, awards of 765,039 shares were made under the Performance Share plan (PSP) 2005 on 28 July 2005. As at 30 April 2006, an equivalent number of shares were held in trust to satisfy the awards under this plan.

Further details of share options in respect of directors are included in the Remuneration Report on pages 45 to 55.

* The Company has taken advantage of the exemption available under IFRS not to apply the requirements of IFRS 2 to these share options.

Notes to the financial statements

23a
Reserves and recognition of change in equity for the year ended 30 April 2006

The movement on Group reserves comprises:

	Share premium account £'000	Merger and other reserves £'000	Own shares £'000	Retained earnings £'000
At 1 May 2004	36,672	366,057	-	(29,051)
Profit for the year	-	-	-	5,894
Dividends	-	-	-	(5,560)
Premium on shares issued net of issue costs	6,410	-	-	-
Share based payment charge for the period	-	1,043	-	-
Share based payment reclassification	-	851	-	-
Minority interest movement	-	-	-	(213)
Eligible transfer of impairment charge to merger reserve	-	(6,619)	-	6,619
Other recognised gains and losses	-	-	-	(1,101)
At 30 April 2005	43,082	361,332	-	(23,412)
Loss for the year	-	-	-	(382,182)
Dividends	-	-	-	(6,030)
Eligible transfer of impairment charge to merger reserve	-	(233,175)	-	233,175
Premium on shares issued net of issue costs	10,461	-	-	-
Share option charge for the period	-	2,585	-	-
Shares acquired in the period	-	-	(3,758)	-
Minority interest movement	-	-	-	(139)
Other recognised gains and losses	-	-	-	(360)
At 30 April 2006	53,543	130,742	(3,758)	(178,948)

Merger and other reserves include merger reserves of £124,072,000 (2005: £357,247,000)

Details of the restatement of reserves are detailed in note 31.

During the year the Group acquired 884,655 shares at a cost of £3,758,000. These shares were acquired through the Group Employee benefit trust, to satisfy grants made in the current year under the Performance Share Plan (PSP) 2005 and under the Directors' deferred share plan.

23b
Reserves and recognition of change in equity for the year ended 30 April 2006

Consolidated reconciliation of changes in equity for the year ended 30 April 2006

	2006 £'000	2005 £'000
Total recognised income and expense for the year	(382,542)	4,793
Opening equity	404,255	396,481
Dividends paid	(6,030)	(5,560)
Issue of ordinary shares, net of costs	10,929	6,647
Share option reserve movement	2,584	1,894
Investment in own shares	(3,758)	-
Closing equity	25,438	404,255

Notes to the financial statements

24 Reconciliation of (loss)/profit from operations to net cash from operating activities

	2006 £'000	2005 £'000
(Loss)/profit from operations	(338,101)	8,455
Amortisation and impairment of intangible assets	353,715	2,003
Depreciation of property, plant and equipment	4,768	4,524
Share-based payment charge	2,585	1,043
Difference between pension charge and cash contributions	258	197
Decrease in provisions	(833)	(511)
Loss on disposal of fixed assets	-	350
Operating cash flows before movements in working capital	22,392	16,061
Decrease in inventories	492	2,626
Decrease in receivables	12,547	40,328
(Decrease)/increase in payables	(33,485)	33,364
Cash generated from operations	1,946	92,379

25 Operating lease commitments

At 30 April 2006, the Group had outstanding commitments for future lease payments under non cancellable operating leases expiring as follows:

	2006		2005	
	Property £'000	Vehicles, plant and equipment £'000	Property £'000	Vehicles, plant and equipment £'000
Within one year	4,375	1,761	3,683	854
Within two to five years	11,424	511	10,676	1,132
After five years	10,921	-	12,598	-
	26,720	2,272	26,957	1,986

Operating lease payments represent rentals payable by the Group under property and equipment leases. *These leases are negotiated for terms of up to 25 years on property with break clauses typically every 5 years* with rentals fixed for similar periods.

26 Share-based payments

Equity-settled share option and deferred share schemes

The Company has a number of share option and SAYE schemes for all employees of the Group, together with a performance share scheme for certain senior employees and a deferred share bonus scheme for Directors. Details of the operation of these schemes are included in note 22 and the remuneration report. Details of the executive and SAYE options outstanding during the year are as follows.

	2006 Number of share options	2006 Weighted average exercise price (£)	2005 Number of share options	2005 Weighted average exercise price (£)
Outstanding at beginning of period	11,747,388	2.83	9,493,277	2.44
Granted during the period	1,652,256	4.04	5,055,055	3.57
Forfeited during the period	(415,338)	(3.10)	(694,281)	(2.95)
Exercised in the period	(3,698,211)	(1.82)	(2,106,663)	(2.76)
Exercisable at the end of the period	9,286,095	3.43	11,747,388	2.83

The weighted average share price at the date of exercise for share options exercised during the period was £4.09. The options outstanding at 30 April 2006 had weighted average remaining contractual life of 8.5 years. Details of options and shares granted in the year ended 30 April 2006 and 30 April 2005 are included in note 22. The aggregate of the estimated fair values of the options granted was £1,870,070 (2005: £7,406,000).

The inputs into the Black-Scholes model for the above options are as follows:

	2006 £	2005 £
Weighted average share price	3.71	3.46
Weighted average exercise price	3.54	3.32
Expected volatility	0.52	0.51
Expected life	3.00	2.90
Risk-free rate	4.60	4.47
Dividends yield	0.60	0.57
Fair value	1.36	1.36

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 7 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the financial statements

26
Share-based payments
cont...

The Group has also granted deferred bonus shares to directors. The movement on these entitlements was as follows:

	Number of shares	*Weighted average grant price (£)*
At 1 May 2004	585,677	3.22
Granted in the year	242,252	3.51
Lapsed in the year	(9,173)	(4.08)
At 30 April 2005	818,756	3.30
Granted in the year	119,616	4.27
Exercised in the year	(39,628)	(4.08)
At 30 April 2006	898,744	3.39

Due to the nature of the scheme the fair value equates to the grant price.

The Group granted 765,039 shares under the Performance Share Plan (PSP) 2005 on 28 July 2005. These shares were valued using a Binominal Model and have an estimated fair value of £2.67 per share.

The Group recognised total expenses of £2,585,000 and £1,043,000 related to equity-settled share-based payment transactions in the years to 30 April 2006 and 30 April 2005 respectively.

27
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'. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 45 to 55.

	30 April 2006 £'000	30 April 2005 £'000
Short-term employee benefits	2,402	3,847
Post-employment benefits	1	-
Termination benefits	-	495
Share-based payment	1,097	946
	3,500	5,288

28
Capital commitments

At the year end capital commitments totalled £588,000 (2005: £1,332,000).

29 Contingent liabilities arising under National Programme for IT

Through the subsidiary company iSOFT plc ("The Company"), the Group entered into two principal contracts ("the Contracts") to deliver software and services as part of the National Programme for IT (NPfIT). On 2 April 2004, the Company signed a contract with Accenture (UK) Limited ("Accenture"), a Local Service Provider (LSP), to deliver software and services to the North-East and East Midlands clusters (the "Accenture Agreement"). On 28 April 2004, the Company signed a contract with CSC Computer Sciences Limited ("CSC"), an LSP, to deliver software and services to the North-West and West Midlands cluster (the "CSC Agreement").

Details of the commercial situation surrounding these agreements are given in the Finance Review on pages 18 and 19.

A number of difficulties experienced on the programme are outside the Company's control, but some have resulted in formal correspondence being exchanged between the Company and both Accenture and CSC, alleging material contractual breach by the Company. The Company has denied all of the disputed allegations of breach. To date, none of this correspondence has resulted in notice to terminate the Contracts being given, or any formal claims being made. The Company has registered claims for additional work done outside the scope of the basic contracts.

The Company has taken legal advice from Ashurst on these matters. However, due to the complexity and nature of the contracts there are differences in the interpretation of functional requirements and their delivery and, in the absence of any formal claim, it is not possible to establish the likelihood nor the quantum of any potential liability. Having reviewed the legal advice the Board has taken the view that, in view of the complexity of the potential claims and counter claims, a commercial settlement is the most likely outcome. Given this position and the existence of receivables due for contractual services performed, no specific provision has been made in relation to this matter.

Were any claims to be brought against the Company, the Board would continue to dispute the liabilities and would defend the Company's position vigorously. Whilst no claims have been made, claims are contractually limited to (1) in respect of Accenture, £5 million per annum for liquidated damages by way of delay deductions and otherwise to £15 million per annum in aggregate: and (2) in respect of CSC, £4 million per annum for liquidated damages by way of delay deductions and otherwise to £18 million per annum in aggregate, with an overall cap of £50 million.

On 11 August 2006, iSOFT signed a Memorandum of Understanding (MOU) with CSC confirming the schedule under which it will provide deliveries to CSC up to a value of £153 million, including £36 million already delivered, in respect of the CSC Agreement, subject to the satisfactory achievement of delivery milestones, with the opportunity to win additional NPfIT business in future through CSC in certain circumstances. Under this agreement, iSOFT has made a number of commitments in respect to the future development of its products for the NPfIT and the costs that it will bear for that work and CSC will have step-in rights to support that development work in the event that iSOFT is unable to meet its material milestones or fulfil its obligations.

30 Subsequent events

On 31 May 2006 the Group disposed of the iSOFT Switzerland GmbH to Nexus Medizinesoftware und Systeme AG for gross consideration of £807,000.

In May 2006 the Group announced a cost reduction plan in respect of its UK operations. It is anticipated that savings of £6,000,000 per annum will be achieved on an annualised basis with a reduction of approximately 150 in employee numbers. The total cost of action already in hand to reduce the cost base, which will be taken as a one-time charge in the year ending 30 April 2007, is estimated to be at least £7 million.

In August 2006 the Group confirmed the revision of its existing bank facilities for a further period of 15 months. Details of these revisions are included in note 19.

Notes to the financial statements

31a Revenue recognition, contract funding and IFRS adjustments

Impact on 2006 reported balances

As indicated in note 2 the Group has amended its revenue recognition policy as the Board has concluded that the previous policy is inappropriate in light of the factors outlined in note 2. The proforma impact of this change, together with the recognition of funding contracts as described on pages 13 and 14, on the reported results for the current year and the impact on reported results for the prior year is detailed below.

Year ended 30 April 2006

	Proforma historical policy £'000	Policy impact £'000	Revised policy £'000
Revenue	213,965	(12,270)	201,695
Goodwill impairment	(351,410)	-	(351,410)
Other operating costs	(196,684)	8,298	(188,386)
Total operating costs	(548,094)	8,298	(539,796)
Loss from operations	**(334,129)**	**(3,972)**	**(338,101)**
Investment revenues	3,099	-	3,099
Finance costs	(5,022)	(3,726)	(8,748)
Loss before tax	**(336,052)**	**(7,698)**	**(343,750)**
Tax	5,103	(43,535)	(38,432)
Loss for the year	**(330,949)**	**(51,233)**	**(382,182)**

Notes to the financial statements

31a Revenue recognition, contract funding and IFRS adjustments cont...

The impact on the balance sheet as at 30 April 2006 is as follows:

30 April 2006	Proforma historical policy £'000	Policy impact £'000	Revised policy £'000
Non-current assets			
Goodwill	144,144	-	144,144
Other intangible assets	771	-	771
Property plant and equipment	14,057	-	14,057
Deferred tax asset	2,800	7,227	10,027
	161,772	**7,227**	**168,999**
Current assets			
Inventories	720	-	720
Trade and other receivables	125,969	(59,719)	66,250
Cash and cash equivalents	77,543	-	77,543
Current assets	**204,232**	**(59,719)**	**144,513**
Assets held for sale	4,000	-	4,000
Total assets	**370,004**	**(52,492)**	**317,512**
Current liabilities			
Trade and other payables	(107,240)	(44,458)	(151,698)
Obligations under finance leases	(947)	-	(947)
Bank and other loans	(29,125)	(18,640)	(47,765)
Short-term provisions	(943)	-	(943)
	(138,255)	**(63,098)**	**(201,353)**
Liabilities associated with non-current assets classified as held for sale	**(3,000)**	-	**(3,000)**
	(141,255)	**(63,098)**	**(204,353)**
Net current assets/(liabilities)	**65,977**	**(122,817)**	**(56,840)**
Non-current liabilities			
Bank and other loans	(26,747)	(43,402)	(70,149)
Retirement benefit obligation	(10,712)	-	(10,712)
Obligations under finance leases	(529)	-	(529)
Deferred tax liability	-	(805)	(805)
Other payables	(3,327)	-	(3,327)
Long-term provisions	(2,199)	-	(2,199)
	(43,514)	(44,207)	(87,721)
Total liabilities	**(184,769)**	**(107,305)**	**(292,074)**
Net assets	**185,235**	**(159,797)**	**25,438**
Equity			
Called up share capital	23,249	-	23,249
Share premium account	53,543	-	53,543
Own shares	(3,758)	-	(3,758)
Merger and other reserves	130,742	-	130,742
Retained earnings	(19,151)	(159,797)	(178,948)
Equity attributable to equity holders of the parent	**184,625**	**(159,797)**	**24,828**
Minority interests	610	-	610
Total equity	**185,235**	**(159,797)**	**25,438**

Notes to the financial statements

31b
Revenue recognition, contract funding and IFRS adjustments cont...

Impact on 2005 reported balances

Explanation of transition to IFRSs
This is the first year that the Group has presented its financial statements under IFRS. The last financial statements under UK GAAP were for the year ended 30 April 2005 and the date of transition to IFRS was therefore 1 May 2004.

Reconciliation of equity at 30 April 2005 (date of last GAAP financial statements).

On 27 October 2005, the Group published financial information for the year ended 30 April 2005 restated for the adoption of IFRS. A copy of that release is available on the Group's website at www.isoftplc.com.

Since the publication of that information, an additional change has come to light and has been reflected in the comparative financial information contained in these financial statements. The change, in respect of the period ended 30 April 2005, comprises the reclassification of accruals of £2,735,000 to share based payment reserve.

The impact on the income statement and balance sheet for the year to 30 April 2005 is set out below. This pro-forma also incorporates adjustments arising from the transition to IFRS recognised since IFRS reconciliations were published on 8 December 2005.

30 April 2005	UK GAAP as reported £'000	Revenue recognition and contract funding prior year adjustment £'000	Adjusted UK GAAP £'000	IFRS changes £'000	2005 Restated £'000
Turnover	261,992	(75,853)	186,139	-	186,139
Net operating costs	(213,971)	11,525	(202,446)	24,762	(177,684)
Profit from operations	48,021	(64,328)	(16,307)	24,762	8,455
Investment revenues	1,254	-	1,254	-	1,254
Finance costs	(4,751)	(2,558)	(7,309)	(225)	(7,534)
Profit/(loss) before tax	44,524	(66,886)	(22,362)	24,537	2,175
Tax	(19,009)	22,590	3,581	138	3,719
Profit/(loss) for the year	25,515	(44,296)	(18,781)	24,675	5,894

31b Revenue recognition, contract funding and IFRS adjustments cont...

Reconciliation of equity at 30 April 2005:

30 April 2005	UK GAAP as reported £'000	Revenue recognition and contract funding prior year adjustment £'000	Adjusted UK GAAP £'000	IFRS changes £'000	2005 Restated £'000
Non-current assets					
Goodwill	456,434	-	456,434	25,221	481,655
Other intangible assets	-	-	-	2,354	2,354
Property plant and equipment	11,116	-	11,116	1,249	12,365
Deferred tax asset	2,947	54,116	57,063	2,049	59,112
	470,497	54,116	524,613	30,873	555,486
Current assets					
Inventories	1,211	-	1,211	-	1,211
Trade and other receivables	114,758	(44,896)	69,862	(53)	69,809
Cash and cash equivalents	110,140	-	110,140	-	110,140
Current Assets	226,109	(44,896)	181,213	(53)	181,160
Assets held for sale	4,000	-	4,000	-	4,000
Total Assets	700,606	9,220	709,826	30,820	740,646
Current liabilities					
Trade and other payables	(133,593)	(56,022)	(189,615)	9,401	(180,214)
Tax liabilities	(20,611)	-	(20,611)	-	(20,611)
Obligations under finance leases	(289)	-	(289)	(761)	(1,050)
Bank and other loans	(13,806)	(15,822)	(29,628)	-	(29,628)
Short-term provisions	(1,400)	-	(1,400)	-	(1,400)
	(169,699)	(71,844)	(241,543)	8,640	(232,903)
Liabilities associated with non-current assets classified as held for sale	-	-	-	(3,000)	(3,000)
	(169,699)	(71,844)	(241,543)	5,640	(235,903)
Net current assets (liabilities)	56,410	(116,740)	(60,330)	8,587	(51,743)
Non-current liabilities					
Bank and other loans	(39,352)	(40,872)	(80,224)	-	(80,224)
Retirement benefit obligation	(6,417)	-	(6,417)	(2,750)	(9,167)
Obligations under finance leases	(309)	-	(309)	(525)	(834)
Deferred tax liabilities	-	(3,926)	(3,926)	-	(3,926)
Other payables	(3,401)	-	(3,401)	-	(3,401)
Long-term provisions	(2,936)	-	(2,936)	-	(2,936)
	(52,415)	(44,798)	(97,213)	(3,275)	(100,488)
Total liabilities	(222,114)	(116,642)	(338,756)	2,365	(336,391)
Net assets	478,492	(107,422)	371,070	33,185	404,255

Notes to the financial statements

Reconciliation of equity at 30 April 2005 continued:

31b Revenue recognition, contract funding and IFRS adjustments cont...

30 April 2005	UK GAAP as reported £'000	Revenue recognition and contract funding prior year adjustment £'000	Adjusted UK GAAP £'000	IFRS changes £'000	2005 Restated £'000
Equity					
Called up share capital	22,778	-	22,778	-	22,778
Share premium account	43,082	-	43,082	-	43,082
Merger and other reserves	336,907	-	336,907	24,425	361,332
Retained earnings	75,250	(107,422)	(32,172)	8,760	(23,412)
Equity attributable to equity holders of the parent	478,017	(107,422)	370,595	33,185	403,780
Minority interest	475	-	475	-	475
	478,492	(107,422)	371,070	33,185	404,255

The presentation requirements of IFRS are reflected within the UK GAAP column above.

Explanatory notes relating to the IFRS adjustments applied to the reconciliation of equity at 30 April 2005

1. **Goodwill** - goodwill has been frozen at the brought forward written down value as at 1 May 2004 and the UK GAAP amortisation charge for the year ended 30 April 2005 reversed to increase intangible assets and profit for the year by £25,221,000.

2. **Other intangible assets** - development costs of £4,357,000 have been capitalised, including £2,003,000 capitalised in 2004, within other intangible assets. The amortisation charge in the period was £2,003,000. The net increase in other intangible assets is therefore £2,354,000.

3. **Property, plant and equipment** - certain leases have been capitalised at a value of £1,249,000 in accordance with IAS 17 with the related liability being included as finance lease liabilities due within one year (£761,000) and after one year (£525,000).

4. **Deferred tax asset** - restated in accordance with IAS 12 to include deferred tax arising on:

	£'000
Reclassification from retirement benefit obligation	2,750
Rolled over gains on asset disposals	(2,299)
Share based payments	2,420
Capitalisation of development costs	(706)
Other timing differences	(116)
	2,049

The deferred taxation asset historically netted off the liability on the defined benefit pension scheme has been reclassified to deferred tax assets in accordance with IAS 12. Gains subject to rollover relief were not provided for under UK GAAP where the gain had been deferred on a semi-permanent basis. IAS 12 requires deferred tax to be provided irrespective of whether there is an intention to sell the asset that the gains are rolled into. Differences in timing between the recognition of accounting charges and corporation tax deductions under IAS now create temporary differences resulting in deferred tax rather than a permanent difference under UK GAAP. IAS 12 applies to all share-based payments and is not time restricted to those issued post 1 November 2002. The capitalisation of development costs has resulted in the creation of a deferred tax liability.

31b Revenue recognition, contract funding and IFRS adjustments cont...

5. **Trade and other payables** - the reduction comprises:

	£'000
Dividends proposed	(4,146)
Holiday pay accrual	480
Share option reserve reclassification	(2,735)
Liabilities associated with non-current assets classified as held for sale	(3,000)
	(9,401)

Dividends are recognised when paid in accordance with IAS 10. The holiday pay liability is accrued in accordance with IAS 19.

Accruals in respect of share based payments are reclassified to reserves in accordance with IFRS2.

6. **Obligations under finance leases** - £761,000 is included within current liabilities and £525,000 in non-current liabilities with respect to finance leases that were previously classified as operating leases under SSAP 21.
7. **Merger and other reserves** - include a transfer to the merger reserve of £20,340,000 following reversal of goodwill amortisation charge and the share option reserve of £4,085,000 relating to the additional share based payments charge for the year and transfer from accruals.

Explanatory notes relating to the IFRS adjustments applied to the income statement for the year ended 30 April 2005

1. **Net operating costs** - the reduction in net operating costs comprises:

	£'000
Goodwill amortisation charge reversal	25,221
Share based payments adjustment	(1,043)
Finance lease interest	233
Net capitalised development cost	351
	24,762

In accordance with IFRS 3, the goodwill amortisation charge recognised in the 2005 financial statements of £25,221,000 has been reversed in order to freeze the goodwill value at the brought forward net book value as at 1 May 2004. The share-based payments charge of £1,043,000 has been computed in accordance with IFRS 2 using a Black-Scholes model. The finance costs of £233,000 relate to interest in respect of operating leases reclassified as finance leases in accordance with IAS 17. The net capitalised development cost is the net effect of the capitalisation of development costs in the year of £2,354,000 and the amortisation of development costs previously capitalised of £2,003,000.

2. **Finance cost** - the £225,000 charge arises from interest on finance leases
3. **Tax** - the additional credit of £138,000 under IAS 12 represents the change in deferred tax arising from the IFRS adjustments between the two balance sheet dates.

31c
Reconciliation of equity at 1 May 2004

1 May 2004	1 May 2004 UK GAAP as reported £'000	Revenue recognition and contract funding prior year adjustment £'000	Adjusted UK GAAP £'000	IFRS changes £'000	1 May 2004 adjusted £'000
Non-current assets					
Goodwill	473,237	-	473,237	-	473,237
Other intangible assets	-	-	-	2,003	2,003
Property plant and equipment	11,870	-	11,870	1,662	13,532
Deferred tax asset	9,513	27,600	37,113	2,938	40,051
	494,620	27,600	522,220	6,603	528,823
Current assets					
Inventories	3,837	-	3,837	-	3,837
Trade and other receivables	97,423	12,461	109,884	(126)	109,758
Cash and cash equivalents	75,034	-	75,034	-	75,034
Current assets	**176,294**	**12,461**	**188,755**	**(126)**	**188,629**
Assets held for sale	10,500	-	10,500	-	10,500
Total assets	**681,414**	**40,061**	**721,475**	**6,477**	**727,952**
Current liabilities					
Trade and other payables	(121,396)	(36,374)	(157,770)	8,208	(149,562)
Tax liabilities	(14,151)	-	(14,151)	-	(14,151)
Obligations under finance leases	(625)	-	(625)	(654)	(1,279)
Bank and other loans	(9,225)	(11,281)	(20,506)	-	(20,506)
Short term provisions	(6,200)	-	(6,200)	-	(6,200)
	(151,597)	**(47,655)**	**(199,252)**	**7,554**	**(191,698)**
Liabilities associated with non-current assets classified as held for sale	-	-	-	(3,000)	(3,000)
Net current asset (liabilities)	**24,697**	**(35,194)**	**(10,497)**	**7,428**	**(3,069)**
Non-current liabilities					
Bank and other loans	(60,820)	(55,581)	(116,401)	-	(116,401)
Retirement benefit obligation	(6,119)	-	(6,119)	(2,622)	(8,741)
Obligations under finance leases	(597)	-	(597)	(952)	(1,549)
Deferred tax liabilities	-	-	-	-	-
Other payables	(5,795)	-	(5,795)	-	(5,795)
Long term provisions	(4,287)	-	(4,287)	-	(4,287)
	(77,618)	(55,581)	(133,199)	(3,574)	(136,773)
Total liabilities	**(229,215)**	**(103,236)**	**(332,451)**	**980**	**(331,471)**
Net assets	**452,199**	**(63,175)**	**389,024**	**7,457**	**396,481**

31c
Reconciliation of equity at 1 May 2004
cont...

	1 May 2004 UK GAAP as reported £'000	Revenue recognition and contract funding prior year adjustment £'000	Adjusted UK GAAP £'000	IFRS changes £'000	1 May 2004 adjusted £'000
Equity					
Called up share capital	22,542	-	22,542	-	22,542
Share premium account	36,672	-	36,672	-	36,672
Merger and other reserves	363,865	-	363,865	2,191	366,056
Retained earnings	28,858	(63,175)	(34,317)	5,266	(29,051)
Equity attributable to equity holders of the parent	451,937	(63,175)	388,762	7,457	396,219
Minority interests	262	-	262	-	262
Total equity	452,199	(63,175)	389,024	7,457	396,481

The presentation requirements of IFRS are reflected within the UK GAAP column above.

Explanatory notes relating to the IFRS and other adjustments applied to the reconciliation of equity at 1 May 2004

As explained in note 31b, since the publication of the IFRS restatement on 27 October 2005, an additional change has come to light and has been reflected in the reconciliation of equity at 1 May 2004. This comprises the reclassification of accruals of £1,884,000 to share based payment reserve.

1. **Other intangible assets** - development costs of £2,003,000 have been capitalised and included within other intangible assets.

2. **Property, plant and equipment** - certain lease arrangements have been capitalised at a net book value of £1,662,000 in accordance with IAS 17 with the related liability being included as finance lease liabilities due within one year (£654,000) and after one year (£952,000).

3. **Deferred tax asset** - restated in accordance with IAS 12 to include deferred tax arising on:

	£'000
Reclassification from retirement benefit obligation	2,622
Rolled over gains on asset disposals	(2,299)
Other deferred tax adjustments	292
Share based payment adjustment	2,924
Capitalisation of development costs	(601)
	2,938

Deferred taxation historically netted off the liability on the defined benefit pension scheme has been reclassified to deferred tax assets in accordance with IAS 12. Gains subject to rollover relief were not provided for under UK GAAP where the gain had been deferred on a semi-permanent basis. IAS 12 requires deferred tax to be provided irrespective of whether there is an intention to sell the asset that the gains are rolled into. Differences in timing between the recognition of accounting charges and corporation tax deductions under IAS now create temporary differences resulting in deferred tax rather than a permanent difference under UK GAAP. IAS 12 applies to all share based payments and is not time restricted to those issued post 1 November 2002. The capitalisation of development costs has resulted in the creation of a deferred tax liability.

31c Reconciliation of equity at 1 May 2004

4. **Trade and other payables** - the reduction in liability comprises:

	£'000
Dividends proposed	(3,820)
Holiday pay accrual	508
Share option reserve reclassification	(1,884)
Liabilities associated with non-current assets classified as held for sale	(3,000)
Other	(12)
Total	(8,208)

Dividends are recognised when paid in accordance with IAS 10. The holiday pay liability is accrued in accordance with IAS 19. Accruals in respect of share based payments are reclassified to reserves in accordance with IFRS 2.

5. **Obligations under finance leases** - £654,000 is included within current liabilities and £952,000 in non-current liabilities with respect to finance leases that were previously classified as operating leases under SSAP 21.

6. **Merger and other reserves** - an additional share option reserve of £307,000 has been created due to the share based payment charge, together with the transfer of the balance sheet accrual of £1,884,000.

Independent auditors' report to the members of iSOFT Group plc

We have audited the individual Company financial statements of iSOFT Group plc for the year ended 30 April 2006 which comprise the balance sheet and the related notes 1 to 13. These individual company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the Group annual report of iSOFT Group plc for the year ended 30 April 2006. We have reported separately on the group financial statements of iSOFT Group plc for the year ended 30 April 2006 and on the information in the Report of the Directors that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the individual Company financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the individual Company financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned 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 individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to us was limited because of the following significant matters:

Carrying value of investments in, and amounts due from, subsidiary undertakings, together with all other assets and liabilities

Arising from the limitations in audit scope detailed in our report on the Group financial statements on pages 61 to 64, in particular the investigations into accounting irregularities in respect of subsidiary undertakings, together with the detail given in notes 1 and 2 of the Group financial statements, sufficient and appropriate audit evidence is not available to determine the carrying values of investments in, and amounts due from, subsidiary undertakings, together with all other assets and liabilities included in the individual Company balance sheet. In the absence of any alternative evidence available to us, we have been unable to form a view on any possible adjustments to the financial statements that might have been determined had the limitations not existed.

Going concern

As detailed in note 1 to the Group financial statements, the directors recognise that there are material uncertainties which may cast significant doubt on the Company's and the Group's ability to continue in operation. Having taken into account these material uncertainties, the directors consider it is appropriate to prepare the financial statements of the Company on the going concern basis. In the circumstances of the Group and the Company, we have been unable to obtain sufficient and appropriate audit evidence regarding the reasonableness of the directors' assumptions regarding the identified material uncertainties. As a result, and in the absence of any alternative evidence available to us, we have been unable to form a view as to the applicability of the going concern basis for the Company, together with the effect on the individual company financial statements should this basis be inappropriate. Any such adjustments would include writing down the carrying value of assets, including investments in subsidiary undertakings, to their recoverable amount and providing for any further liabilities that might arise.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion: disclaimer on view given by individual Company financial statements

Because of the possible effects of the limitations in evidence available to us, we are unable to form an opinion as to whether:

- the individual 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 30 April 2006; and
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985 including comparative information.

In respect of the limitations of our work referred to above we have not obtained all the information and explanations that we considered necessary for the purposes of our audit.

In our opinion, having regard to our disclaimer of opinion set out above, the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Financial Review, Report of the Chairman and Chief Executive Officer and Corporate Social Responsibility Statement that are cross-referred from the Business Review section of the Report of the Directors.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
25 August 2006

Balance sheet as at 30 April 2006

	Note	2006 £'000	2005 £'000 *Restated*
Fixed assets			
Tangible fixed assets	3	2,749	1,041
Investments	4	87,218	445,598
		89,967	446,639
Current assets			
Debtors	5	64,827	95,706
Cash at bank and in hand		12	366
		64,839	96,072
Creditors: amounts falling due within one year	6	(66,769)	(66,406)
Net current (liabilities)/assets		(1,930)	29,666
Total assets less current liabilities		88,037	476,305
Creditors: amounts falling due after one year	7	(26,640)	(38,226)
Provisions for liabilities and charges	8	-	(8)
Net assets		61,397	438,071
Capital and reserves			
Called-up share capital	9	23,249	22,778
Share premium account	10	53,543	43,082
Investment in own shares	10	(3,758)	-
Share based payment reserve	10	4,800	3,073
Merger reserve	10	88,683	363,865
Profit and loss account	11	(105,120)	5,273
Equity shareholders' funds		61,397	438,071

The financial statements were approved by the Board of directors and authorised for issue on 25 August 2006.
They were signed on its behalf by:

John Weston
Chairman and acting Chief Executive Officer

Gavin James
Group Finance Director

Notes to the financial statements

01 Significant accounting policies

i. 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. In preparing these individual company financial statements, the significant limitations and circumstances set out in note 1 to Group financial statements were taken into account.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year with the exceptions of FRS 20 and FRS 21 which have been applied for the first time in this reporting period and prior year balances restated accordingly.

Impact of new FRS

The following new accounting standards have also been adopted in the year but have had no impact on the financial statements:

FRS 25 Financial instruments: Disclosure and presentation

FRS 26 Financial instruments: Measurement

FRS 28 Corresponding amounts

ii. Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences are taken to the profit and loss account.

iii. Tangible fixed assets

Tangible fixed assets are stated at cost less any *applicable discounts. Depreciation is provided at* rates calculated to write down the cost of tangible assets over their estimated useful life on a straight-line basis. The annual rates of depreciation, by category of fixed asset, are as follows:

- office equipment, fixtures and fittings 12.5% to 20.0%

iv. Share-based payments

The Company has applied the requirements of FRS 20, 'Share-based Payments'. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2005.

The Company issues equity-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured by use of a Black-Scholes model or Binomial model, as most appropriate for the terms of the instrument. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations. The cost in relation to the deferred bonus scheme is charged in the year of performance.

v. Fixed asset investments

Fixed asset investments are stated at cost less any write down for impairment.

vi. Leased assets

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis *over the period of the lease.*

vii. Taxation

Corporation tax is provided on taxable profits at the current rate.

Deferred tax is provided on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Notes to the financial statements

01
Significant accounting policies cont...

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses.

viii. Pensions

The Company operates a defined contribution scheme. The pension charge shown represents the total contributions made by the Company for the year.

ix. **Significant accounting judgements and estimation uncertainty**

In the process of applying the Company's accounting policies, which are detailed above, management has made judgements that the most significant effect on the amounts recognised in the financial statements relate to the assumptions on valuation of investments and intercompany loan accounts. Management have reviewed the carrying value of investments in the balance sheet as at 30 April 2006. As a result of this review, an impairment charge of £362,462,000 has been recognised. Furthermore, following an assessment of the recoverability of intercompany receivable balances a further provision of £20,891,000 has been recognised against these balances.

02a
(Loss)/profit for the year

Company profit and loss account

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. A loss of £379,545,000 (2005: profit of £12,358,000) is dealt with in the accounts of the Company. The loss in the current year includes investment and loan impairments totalling £383,353,000.

The auditors' remuneration for services to the Company was £34,000 (2005: £25,000).

02b
(Loss)/profit for the year

Staff costs

	2006 £000	2005 £000
Employees costs including directors amounted to:		
Wages and salaries	12,714	7,893
Social security costs	1,257	1,089
Other pension costs	577	467
	14,548	9,449

02c
(Loss)/profit for the year

The average monthly number of employees, including executive directors, employed by the Company during the year was:

	2006 Number	2005 Number
Development	20	13
Sales and marketing	17	-
HR legal and finance	55	38
Computer services	37	-
	129	51

Notes to the financial statements

03 Tangible fixed assets

	Fixtures, fittings & equipment £'000
Cost	
At 1 May 2005	1,050
Additions	1,985
At 30 April 2006	3,035
Depreciation	
At 1 May 2005	9
Charge for the year	277
At 30 April 2006	286
Net book value	
At 30 April 2006	2,749
At 1 May 2005	1,041

04 Fixed asset investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 May 2005	445,598
Additions	4,854
Transfers	(772)
At 30 April 2006	449,680
Provision for impairment	
At 1 May 2005	-
Impairment	(362,462)
At 30 April 2006	(362,462)
Net book value	
At 30 April 2006	87,218
At 30 April 2005	445,598

04
Fixed asset investments cont...

Principal trading Subsidiaries	Class of share held	Proportion of shares	Nature of business	Country of incorporation
iSOFT plc	Ordinary	100%	Computer services	England & Wales
iSOFT R&D Private Limited*	Ordinary	94%	Software development	India
iSOFT Australia Pty Limited*	Ordinary	100%	Computer services	Australia
iSOFT NZ Limited*	Ordinary	100%	Computer services	New Zealand
iSOFT Holdings (Singapore) Limited*	Ordinary	100%	Computer services	Singapore
iSOFT Ltd	Ordinary	100%	Computer services	Ireland
Revive Health Limited*	Ordinary	100%	Computer services	England & Wales
Torex Health Limited*	Ordinary	100%	Computer services	England & Wales
Torex Services Limited*	Ordinary	100%	Computer services	England & Wales
Torex Medical Systems Limited*	Ordinary	100%	Computer services	England & Wales
iSOFT Netherlands BV*	Ordinary	100%	Computer services	Netherlands
iSOFT Deutschland GmbH*	Ordinary	100%	Computer services	Germany
iSOFT Switzerland GmbH*	Ordinary	100%	Computer services	Switzerland
iSOFT Business Solutions (Ireland) Limited*	Ordinary	100%	Computer services	Ireland
iSOFT Business Solutions (HK) Limited*	Ordinary	100%	Computer services	Hong Kong
iSOFT Business Solutions UK Limited*	Ordinary	100%	Computer services	England & Wales
Torex Radiology Systems Limited*	Ordinary	100%	Computer services	England & Wales
Torex Protos Limited*	Ordinary	100%	Computer services	England & Wales
HAS Solutions Pty Limited*	Ordinary	100%	Computer services	Australia
Paramedical Pty Limited*	Ordinary	100%	Computer services	Australia
iSOFT Sanidad S.A.	Ordinary	100%	Computer services	Spain

*denotes shares not held directly by iSOFT Group plc.

All companies have a financial year end of 30 April, with the exception of iSOFT R&D Private Limited, which has a financial year end of 31 March.

05
Debtors

	2006 £'000	2005 £'000
Amounts owed by Group undertakings	63,093	95,077
Other debtors	-	457
Prepayments and accrued income	767	172
Deferred tax (note 8)	967	-
	64,827	95,706

06
Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Bank and other borrowings	47,262	28,157
Trade creditors	864	269
Amounts owed to Group undertakings	14,845	32,770
Corporation tax	24	200
Accruals and other creditors	3,774	5,010
	66,769	66,406

Notes to the financial statements

07 Creditors: amounts falling due after more than one year

Creditors falling due after more than one year comprise bank loans. Bank loans and overdrafts mature as follows:

	2006 £'000	2005 £'000
Amounts falling due within 1-2 years	11,760	11,760
Amounts falling due within 2-5 years	14,880	26,466
Amounts falling due after more than 1 year	26,640	38,226
Amounts falling due within 1 year	47,262	28,157
Total bank loans and overdrafts	73,902	66,383

In August 2006 the Company entered into new facility arrangements, details of which are included in note 19 of the Consolidated Group Accounts.

08 Provisions for liabilities and charges

Provisions for liabilities and charges comprise deferred tax as follows:

	2006 £'000	2005 £'000
Accelerated capital allowance	121	8
Short term timing differences	(1,088)	-
Deferred taxation (asset)/provision	(967)	8

The movement on deferred tax comprises:

	2006 £'000
As at 1 May 2005	8
Credited in the year	(975)
As at 30 April 2006	(967)

09 Called-up share capital

	2006 £	2005 £
Authorised		
350,000,000 (2005: 350,000,000) ordinary shares of £0.10 each	35,000,000	35,000,000

	2006 £	2005 £
Allotted, called-up and fully paid		
232,485,722 (2005: 227,783,124) ordinary shares of £0.10 each	23,248,572	22,778,312

Shares issued during the period

On 16 August 2005, the Company allotted 200,000 shares at a fair value of £847,500 in consideration for an additional 6% stake in iSOFT R&D Private Limited.

3,737,840 shares have been issued during the year to satisfy the Company's requirements under the Group's share schemes. Consideration received was £7,030,000.

On 21 October 2005 the Company issued 294,559 shares at a fair value of £1,031,781 in respect of the settlement of GAP deferred consideration.

On 12 October 2005 the Company issued 470,199 shares at a fair value of £2,039,000 in respect of the acquisition of Novasoft Sanidad S.A.

09
Called-up
share capital
cont...

Share options

The following options are outstanding under unapproved and approved share option schemes. Exercise of these options is subject to employees meeting individual performance criteria and also to the performance of the Group measured over three years from the date of grant. Options include directors' share options. Executive options are granted at market value at the date of grant.

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
11 Jul 00	100,000*	110.0	10 Jul 01	11 Jul 03	10 Jul 10
11 Oct 01	100,000*	217.5	10 Oct 02	11 Oct 04	10 Oct 11
30 Sep 02	220,000*	151.3	29 Sep 03	30 Sep 05	29 Sep 12
25 Mar 04	815,000	338.0	24 Mar 05	25 Mar 07	24 Mar 14
09 Feb 05	2,590,000	371.7	08 Feb 06	09 Feb 08	08 Feb 15
30 Jun 05	250,000	423.8	29 Jun 06	30 Jun 08	29 Jun 15
28 Jul 05	220,000	418.0	27 Jul 06	28 Jul 08	27 Jul 15

The following Torex share options were rolled over into options over iSOFT Group shares at the time of the merger and are still outstanding in respect of employees of iSOFT Group plc.

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
15 Mar 01	17,691*	374.46	23 Dec 03	15 Mar 04	14 Mar 11
27 Feb 02	24,767*	418.27	23 Dec 03	27 Feb 05	26 Feb 12

* The Company has taken advantage of the exemption available under FRS 20 not to treat the above options as share based payments.

In addition to the options above, 48,509 options were outstanding in respect of the savings related share option scheme, 4,875 have an exercise price of 239.0 pence (first exercisable in 2006), 21,454 have an exercise price of 266.0 pence (first exercisable in 2007), and 22,180 have an exercise price of 348.5 pence (first exercisable in 2008). These options are granted at a 20% discount to market value at the date of grant.

Furthermore awards of 731,008 shares were made under the Performance Share plan (PSP) 2005 on 28 July 2005. An equivalent number of shares were held in trust to satisfy the awards under this plan.

Notes to the financial statements

09
Called-up
share capital
cont...

Equity-settled share option and deferred share schemes

The Company has a number of share option and SAYE schemes for all employees of the Group, together with a performance share scheme for certain senior employees and a deferred share bonus scheme for Directors. Details of the executive and SAYE options outstanding during the year are as follows.

	30 April 2006 Number of share options	30 April 2006 Weighted average exercise price (£)	30 April 2005 Number of share options	30 April 2005 Weighted average exercise price (£)
Outstanding at beginning of period	**6,416,686**	**2.79**	4,115,509	2.18
Granted during the period	**506,204**	**4.17**	2,617,827	3.71
Forfeited during the period	**(54,903)**	**(1.57)**	(10,650)	(3.17)
Exercised in the period	**(2,482,020)**	**(1.84)**	(306,000)	(2.12)
Exercisable at the end of the period	**4,385,967**	**3.50**	6,416,686	2.79

The weighted average share price at the date of exercise for share options exercised during the period was £4.15. The options outstanding at 30 April 2006 had weighted average remaining contractual life of 7.6 years. The aggregate of the estimated fair values of the options granted in the year was £601,477 (2005: £3,525,419).

The inputs into the Black-Scholes model for the above options are as follows:

	30 April 2006 £	30 April 2005 £
Weighted average share price	**3.72**	3.37
Weighted average exercise price	**3.69**	3.34
Expected volatility	**0.51**	0.47
Expected life	**3.00**	3.00
Risk-free rate	**4.62**	4.31
Dividend yield	**0.60**	0.55
Fair value	**1.35**	1.27

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 7 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

09 Called-up share capital cont...

The Group has also granted deferred bonus shares to directors. The movement on these entitlements was as follows:

	Number of shares	Weighted average *grant price (£)*
At 1 May 2004	585,677	3.22
Granted in the year	242,252	3.51
Lapsed in the year	(9,173)	(4.08)
At 30 April 2005	818,756	3.30
Granted in the year	119,616	4.27
Exercised in the year	(39,628)	(4.08)
At 30 April 2006	898,744	3.39

Due to the nature of the scheme the fair value equates to the grant price.

The Group granted 765,039 shares under the Performance Share Plan (PSP) 2005 on 28 July 2005. These shares were valued using a Binominal Model and have an estimated fair value of £2.67 per share.

The Company recognised total expenses of £1,727,000 and £1,168,000 related to equity-settled share-based payment transactions in the year to 30 April 2006 and 30 April 2005 respectively.

10 Reserves

	Share premium *account* £'000	Share based *payment reserve* £'000	Investment in *own shares* £'000	Merger *reserves* £'000
At 1 May 2005	43,082	-	-	363,865
Prior year adjustment	-	3,073	-	-
At 1 May 2005 - restated	43,082	3,073	-	363,865
Transfer to profit and loss	-	-	-	(275,182)
Shares acquired	-	-	(3,758)	-
Share option charge	-	1,727	-	-
Premium on shares issued	10,461	-	-	-
At 30 April 2006	53,543	4,800	(3,758)	88,683

During the year the Group acquired 884,655 shares at a cost of £3,758,000. These shares were acquired through the Group Employee benefit trust to satisfy grants made in the current year under the Performance Share Plan (PSP) 2005 and under the Directors' deferred share plan.

Notes to the financial statements

11 Profit and loss account

	£'000
Balance at 1 May 2005 as previously reported	9,124
Prior year adjustment	(3,851)
At 1 May 2005 as restated	5,273
Dividends paid	(6,030)
Transfer from merger reserve	275,182
Loss for the financial year	(379,545)
As at 30 April 2006	(105,120)

	£'000
The prior year adjustment comprises:	
Restatement of dividends under FRS 21	(1,854)
Reclassification of share based payments under FRS 20	(1,997)
	(3,851)

12 Reconciliation of movement in shareholders' funds for the year ended 30 April 2006

	2006 £'000	2005 £'000
(Loss)/profit for the financial year	(379,545)	12,358
Dividends	(6,030)	(5,560)
	(385,575)	6,798
Shares issued net of costs	10,932	6,646
Share option reserve	1,727	1,168
Investment in own shares	(3,758)	-
Net (decrease)/increase in shareholders funds	(376,674)	14,612
Opening shareholders' funds (restated)	438,071	423,459
Closing shareholders' funds	61,397	438,071

The restatement of shareholders' funds comprises:

	2006 £'000	2005 £'000
Opening shareholders' funds as previously reported	438,849	430,551
Restatement of dividends under FRS 21	(1,854)	(8,168)
Reclassification of share based payments under FRS 20	1,076	1,076
Restated shareholders' funds at beginning of year	438,071	423,459

13 Operating lease commitments

At 30 April 2006 the Company has lease arrangements in respect of properties, vehicles, plant and equipment for which payments extend over a number of years as follows:

	2006 Property £'000	2006 Vehicles, plant and equipment £'000	2005 Property £'000	2005 Vehicles, plant and equipment £'000
Within one year	-	-	-	4
Within two to five years	-	53	-	53
After five years	387	-	387	-
	387	53	387	57

	IFRS 2006 £m	IFRS 2005 £m	UK GAAP 2004 £m	UK GAAP 2003 £m	UK GAAP 2002 £m
Results					
Revenue	**201.7**	186.1	94.8	51.3	56.3
(Loss)/profit from operations	**(338.1)**	8.5	(34.2)	(19.2)	9.3
Normalised operating profit/(loss)*	**13.3**	7.2	(15.0)	(14.6)	12.6
Normalised (loss)/profit before tax*	**7.7**	(0.9)	(17.7)	(16.7)	11.6
Key statistics					
(Loss)/earnings per share (pence)	**(165.1)**	2.6	(17.1)	(12.6)	5.4
Underlying (loss)/earnings per share (pence)	**(13.3)**	2.6	(8.1)	(12.0)	5.9
Net funds/(debt)	**(41.8)**	(1.6)	(64.7)	(39.6)	(45.3)
Cash generated by operations	**1.9**	92.4	35.9	23.5	16.9
Average number of employees	**3,224**	2,546	1,338	580	252

* stated before goodwill amortisation, goodwill impairment and exceptional items.

Registered & head office
iSOFT Group plc
Aviator Way
Manchester Business Park
Manchester M22 5TG

Registered number
3716736

Website
www.isoftplc.com

Executive directors
John Weston
Chairman and acting Chief Executive Officer

Stephen Graham
Group Commercial Director

Ravi Kumar
Chief Technology Officer

Gavin James
Group Finance Director

Non-executive directors
Geoffrey White
Non-executive Deputy Chairman

Eurfyl ap Gwilym
Rene Kern
David Thorpe
Ken Lever

Company Secretary
Teifion Hill

Financial advisers & stockbrokers
Morgan Stanley & Co. International Ltd
25 Cabot Square
Canary Wharf
London E14 4QA

Bridgewell Ltd
Old Change House
128 Queen Victoria Stret
London EC4V 4BJ

Independent Auditor
Deloitte & Touche LLP
201 Deansgate
Manchester
M60 2AT

Solicitors
Linklaters
One Silk Street
London EC2Y 8HQ

Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

Remuneration advisers
Kepler Associates Limited
60 Trafalgar Square
London WC2N 5DS

Bankers
Lloyds TSB Bank plc
25 Gresham Street
London EC2V 7HN

Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

Barclays Bank plc
5 The North Colonnade
Canary Wharf
London E14 4BB

HSBC Bank plc
8 Canada Square
London E14 5HQ

Public relations
Financial Dynamics
Holborn Gate
26 Southampton Buildings
London WC2A 1TB

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Investor and online shareholder services
Information for investors is available via the Company website at www.isoftplc.com/investor.

Shareholders can also access details of their shareholding by registering with the Shareview service provided by our registrar, Lloyds TSB Registrars. The service also provides the facility for shareholders to amend address or dividend payment instructions online.

To register with the Shareview service please visit www.shareview.co.uk. You will need your 'shareholder reference' which is printed on recent shareholder correspondence, for example, your proxy form or dividend stationery. There is no charge to register for Shareview.