

**Company** Gresham Computing PLC  
**TIDM** GHT  
**Headline** Annual Financial Report Announcement  
**Released** 07:00 22-Apr-09  
**Number** 9450Q07



**Gresham Computing plc**  
("Gresham" or "the Company")  
**Annual Financial Report Announcement**

Gresham, the specialist provider of real-time financial solutions and storage solutions, is pleased to report its results for the financial year ended 31 December 2008.

**Financial Highlights**

- Revenues increased by 4% to £13.9m (2007: 13.4m)
- Adjusted EBITDA profit of £1.0m (2007: loss £2.2m)
- Administrative costs reduced by over £1m
- Profit on disposal of subsidiary undertaking £0.6m
- Loss before tax £0.2m (2007: loss £2.9m)
- Profit after tax £0.03m (2007: loss £2.4m)
- Cash balance of £1.2m (2007: £2.3m)
- April 2009, further strengthened cash resources through sale and leaseback of freehold office for gross cash proceeds of £875,000.

**Operational Highlights**

- Tighter focus on real-time financial solutions and storage businesses
- Restructured IT staff placement business
- Increased sales and marketing capabilities
- Significant market opportunity for real-time cash management solutions
- Landmark contract win in April 2009 with a global banking group which is expected to have a material impact on future performance
- Successful launch of data storage backup virtualisation solution for the IBM iSeries market - a substantial niche market

**Andrew Walton-Green, CEO of Gresham**, commented, "We entered 2009 with a tighter focus on our core businesses, an encouraging order book, closing out a key contract and strengthening our balance sheet in early April 2009. The current economic environment has helped us achieve solid traction with our cash management solutions. Revenues from our core business are expected to grow substantially.

"I am pleased to report that business in Q1 2009 was slightly ahead of what was a good Q1 2008, with cash balances remaining stable from the year end and expected to grow. We expect 2009 to be a year of significant progress for the group across its core business."

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**ANNUAL FINANCIAL REPORT ANNOUNCEMENT**

In accordance with the Disclosure and Transparency Rules, we set out below the extracts from the 2008 Annual Financial Report in un-edited full text. In order to comply with the regulatory requirement to include un-edited text in this Annual Financial Report Announcement, page and note references refer to page and note numbers in the 2008 Annual Financial Report.

## **CHAIRMAN'S STATEMENT**

### **Overview of the year**

It is now a year since I joined Gresham as Chairman and it is a year that is almost unprecedented in the history of the financial services industry. Just a few months into my new role, the world economy started to tip into recession accompanied by almost daily collapses in major financial institutions. At SIBOS last September, the biggest annual gathering of international banks, which I have attended for many years, it was extraordinary to witness a number of major global banks quite literally disappearing overnight.

It is against this backdrop that I am pleased to report that the group has made significant progress in the last year. We have sold one non-core business and de-risked another; achieved a financial turnaround and traded profitably at an adjusted EBITDA level each quarter from Q2 of 2008 through to Q4 2008.

Operationally, we have strengthened our businesses with the addition of new people and increased our sales and marketing capabilities to achieve growth based on meeting the needs of our customers. The major contract with a global banking group announced earlier this month is testament to our capability in truly global markets and underlines our focus on delivering those core capabilities for the long term. Our focus is on securing new contracts of this type and establishing annuity incomes for the long term in our core markets.

We believe both our storage and core banking solutions are extremely well-positioned to capitalise on current market trends. In this new economy, real-time information about cash is of paramount importance to banks and their customers and Gresham Real-Time Financial Solutions provide the tools that give them that capability. Gresham Storage continues to deliver cost-efficiencies to customers through our ability to streamline, optimise and simplify their environments, enabling them to make better use of limited budgets. We therefore believe the future for the group is a promising one.

### **Strategy**

Our strategy is to focus on the provision of real-time financial solutions for the global financial services market, and storage solutions for the world's largest organisations. We will be utilising our customer relationships and partners to take these solutions out to the global market place.

The markets for real-time financial solutions and storage solutions are huge and we believe that Gresham technology is well placed to satisfy a significant part of the growing demand for both. Our confidence in our success in these areas is founded on our 40 years' of experience in providing IT applications and solutions to our blue chip customer base.

### **Real-time financial solutions**

#### *Cash reporting*

One of our key areas of focus this year and moving forward has been on our cash reporting solutions, which we believe address a growing need in the market for increased control and management of cash in order to reduce risk. The Bank of International Settlements issued a report in September 2008 entitled "Principles for Sound Liquidity Risk Management and Supervision". The report highlights the need for the wider banking community to improve the management of their liquidity and risk on an intraday basis. Our cash reporting solution is currently being used by a number of the largest banks in the world to assist them in managing the exposures identified in this report and the recent turmoil in financial markets is resulting in renewed regulatory impetus.

We were delighted to report in April 2009, post year-end, a new contract with a global banking group (the "Bank") for the provision of software, services and support in respect of its cash management, payment gateway and cash reporting capabilities.

This is a strategic deal for Gresham, bringing together many aspects of our technology and know-how in the cash management and payments arena. It represents the culmination of our investment and focus in these core areas and we expect that there will be a string of successes to follow this landmark deal.

The contract has been constructed to enable the Bank to build significant annuity revenues over time by delivering added value services to their Tier 1 customer base in key market sectors. The Bank will use their own range of leading core banking solutions, enhanced by Gresham's capabilities, products and services, to deliver real-time, automated, integrated global solutions. Gresham is expected to be an integral part of the Bank's team, working closely with them to secure new revenues. The Bank and Gresham are working together to deliver solutions to the Bank's core customers, initially focused on Europe, the Middle East and Africa. Gresham's success is closely tied to that of the Bank.

#### *Supply chain finance*

Our patent-pending Supply Chain Finance solution has been designed and built over the last three years, utilising our expertise gained through our cash reporting solutions and capabilities. We believe it is world class both in terms of innovation and performance.

In September, we announced a new strategic partnership with Quadrem, the world's largest global supply chain portal delivering on-demand supply chain services and solutions to improve sourcing, procurement, electronic invoicing and supplier relationship management. Gresham, leveraging Quadrem's on-line community of over 60,000 suppliers, is able to offer banks the ability to provide both supply chain and supply chain financing capabilities on a global basis. The key is "certainty" when doing business on a global basis; achieving one view of the truth agreed between buyer, supplier and third parties such as banks, shipping agents etc. The supply chain network becomes a robust platform for doing business efficiently and with a high degree of certainty for all parties concerned. Since the announcement of our partnership with Quadrem, we have had strong interest from a number of banks and we are currently pursuing these opportunities.

A major Australian retailer is the third buyer now live on our supply chain financing platform. Average annual financing throughput exceeds US\$1.25bn based on the early phase of platform deployment to buyers and their major suppliers, with plans to roll-out to the wider supplier base of general suppliers already underway. Our financial return increases as the solution becomes more deeply embedded within this general supplier base. Whilst uptake in this area has naturally been affected by the world-wide economic situation, we are confident in the long term prospects for this innovative solution.

#### *Treasury management*

In February 2008, we were pleased to announce a substantial contract win for a treasury management solution with a blue chip customer. This win followed earlier successful implementations at both Petronas and Khazanah in Malaysia, where we continue to deliver enhancements and provide support. The contract contributes to a growing maintenance stream in the region and provides an excellent credential for further work in the region.

#### **Storage solutions**

Gresham Storage Solutions, which counts over 90 of the Global Fortune 500 as customers, has long been a key player in the global storage market, enabling customers to derive maximum benefit from their various storage technologies. We offer a wide range of solutions from writing device drivers for other vendors to streamlining, optimising and simplifying data protection environments with our Clareti Storage Director and Clareti Enterprise DistribuTape products.

Clareti Storage Director is proving to be a winning product. We have successfully developed this solution for key niche markets, the first of which was the HP NonStop market where we have successfully delivered to some of the largest companies in the world.

The second focus is the IBM iSeries market, a much larger niche, and we have now successfully delivered this to first customers, securing a Fortune 500 real estate company as a client with several prospects in banking, oil production and restaurant management in the pipeline. While we are too early in the cycle to predict what share of this market we will win, we believe that we have a very strong proposition for customers who are generally poorly served in this key niche.

We are actively engaging with Tier 1 and Tier 2 resellers and channel partners to enable us to broaden our reach to this key market globally. We are currently also in discussions with hardware manufacturers to facilitate the delivery of this solution as an appliance (hardware and software delivered as a single solution) in volume.

We therefore believe we are very well placed to benefit from the growing global need for increased storage and expect to see growth in this division through 2009 and 2010.

### IT Placement business

The Board took a decision to change the business model applicable to our IT Placement business and as a direct result we significantly reduced overheads and risk in this area. We expect revenues from this part of the group to continue to decrease significantly whilst anticipating an improved return from the new model.

### Financials

During the year we continued to invest in our three core technologies; cash reporting, supply chain finance and backup virtualisation. Alongside this we continue to invest in brand awareness and marketing focused on our core target markets for these technologies.

Group revenues were £13.9m (2007: £13.4m) generating a profit after tax of £0.03m (2007: loss after tax £2.4m) with cash at year end of £1.2m (2007: £2.3m). We report an adjusted EBITDA profit of £1.0m (2007: loss £2.2m), which includes a profit of £0.6m in respect of the disposal of Redstone Software Inc.

The impact of foreign exchange and business disposals (Redstone Software Inc and Gresham SA) on revenues and profits is presented below, at constant exchange rates from prior year:

	Group Revenues		Group Profit / (Loss) after tax		Adjusted EBITDA	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Ongoing business	13,081	12,758	(420)	(2,433)	464	(2,240)
Disposed businesses	344	665	530	13	550	70
Foreign exchange	469	0	(80)	0	(59)	0
	<u>13,894</u>	<u>13,423</u>	<u>30</u>	<u>(2,420)</u>	<u>955</u>	<u>(2,170)</u>

A significant proportion of our revenues are derived from overseas and the impact of translating revenue at constant currency rates with prior year was significant in the year, with revenue increased by £216,000 in Asia Pacific and £253,000 in North America as a result. The impact of a similar foreign currency translation on the income line was far less marked because of the lower values involved, with an overall adverse impact of approximately £80,000.

EMEA revenues were £7.5m (2007: £8.2m) with a decline of £0.6m in non-core and legacy businesses and a £0.1m decline in core as we move from license based sales to annuity based contracts. North American revenues were relatively stable at £3.9m (2007: £4.0m) after taking into account the disposal of Redstone Inc and currency movements. Asia Pacific revenues were £2.5m (2007: £1.3m) which reflects the impact of the significant implementation contract won in early 2008.

Profitability improved across each business segment, with the cost reductions from 2007 and 2008 starting to show. Central overheads were also significantly reduced arising from both changes made in 2007 and additional savings made in 2008.

In September 2008, we disposed of our testing and automation subsidiary Redstone Software Inc, generating a one-off profit of £599,000 and a net cash inflow of £409,000.

Cash at the year end was £1.2m (2007: £2.3m) representing a stable position from H1 2008 through year end to Q1 09. We strengthened our balance sheet with the sale of our freehold property in April 2009 for gross cash proceeds of £875,000. Outside of these more public transactions, we made further progress to focus the group on growth and increase our balance sheet strength. The restructuring of our IT Placement business was completed this month and whilst the new business model has led to a significant decline in the associated revenues, we are now experiencing much improved working capital, profitability and significantly lower credit risk. We have also commenced a programme to significantly reduce the group's working capital more generally in 2009.

*Note: Adjusted EBITDA calculated as Earnings Before Interest, Tax, Depreciation and Amortisation, excluding share option charges.*

### **Change to Business Model**

As part of our drive to increase revenue visibility and reduce reliance on lumpy licence revenue we have over the last three years begun the introduction of a revenue share model into our banking solutions division. Whilst having a detrimental effect on revenues in the short-term, we believe this will enable the company to benefit more meaningfully from the huge potential we see in these solution areas.

### **Outlook**

We entered 2009 with a tighter focus on our core businesses, an encouraging order book, closing out a key contract and strengthening our balance sheet in early April 2009. The current economic environment has helped us achieve solid traction with our cash management solutions. Revenues from our core business are expected to grow substantially.

I am pleased to report that business in Q1 2009 was slightly ahead of what was a good Q1 2008, with cash balances remaining stable from the year end and expected to grow. We expect 2009 to be a year of significant progress for the group across its core business.

Eric Sepkes  
Chairman  
21 April 2009

**Group income statement**  
**For the year ended 31 December 2008**

	Notes	31 December 2008 £'000	31 December 2007 £'000
<b>Revenue</b>	3,4,26	13,894	13,423
Cost of goods sold		(7,623)	(7,192)
Gross profit		6,271	6,231
Administrative expenses		(7,090)	(9,184)
Trading loss	5	(819)	(2,953)
Profit on disposal of subsidiary undertaking	16	599	0
Finance revenue	3,8	71	107
Finance costs	8	(2)	(23)
<b>Loss before taxation</b>		(151)	(2,869)
Taxation	9	181	449
<b>Attributable to equity holders of the parent</b>	24	30	(2,420)
<b>Earnings/(loss) per share (total and continuing)</b>			
Basic earnings/(loss) per share - pence	10	0.06	(4.74)
Diluted earnings/(loss) per share - pence	10	0.06	(4.74)

**Group statement of recognised income and expense**  
**For the year ended 31 December 2008**

	31 December 2008 £'000	31 December 2007 £'000
Exchange differences on translation of foreign operations	358	68
Exchange differences transferred to income statement on disposal of subsidiary undertakings	(107)	0
Net income / (expense) recognised directly in equity	251	68
Attributable profit / (loss) for the year	30	(2,420)
Total recognised income / (expense) for the year	281	(2,352)

**Group balance sheet**  
**At 31 December 2008**

	Notes	31 December 2008 £'000	31 December 2007 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	652	1,327
Intangible assets	13	6,810	6,086
		7,462	7,413
<b>Current assets</b>			
Trade and other receivables	17	3,239	3,650
Inventories	15	20	100
Income tax receivable	17	281	374
Other financial assets	15	0	20
Cash and cash equivalents	18	1,214	2,300
		4,754	6,444

Assets held for sale	12	860	0
<b>TOTAL ASSETS</b>		<u>13,076</u>	<u>13,857</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Called up equity share capital	22	2,643	2,643
Share premium account	24	12,564	12,564
Other reserves	24	1,039	1,039
Foreign currency translation reserve	24	187	(64)
Retained earnings	24	<u>(8,576)</u>	<u>(8,761)</u>
	24	7,857	7,421
<b>Non-current liabilities</b>			
Deferred income	19	278	715
Financial liabilities	19	59	0
Provisions	19	<u>160</u>	<u>0</u>
		497	715
<b>Current liabilities</b>			
Trade and other payables	19	4,572	5,460
Financial liabilities	19	28	0
Income tax payable	19	122	61
Provisions	19	<u>0</u>	<u>200</u>
		4,722	5,721
<b>Total liabilities</b>		<u>5,219</u>	<u>6,436</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>13,076</u>	<u>13,857</u>

On behalf of the board  
CM Errington                      AJS Walton-Green  
21 April 2009                      21 April 2009  
**Group cashflow statement**  
For the year ended 31 December 2008

	Notes	31 December 2008 £'000	31 December 2007 £'000
<b>Cash flows from operating activities</b>			
Loss before taxation		(151)	(2,869)
Depreciation, amortisation and impairment	5	1,020	741
Share based payment expense	7,23	155	42
Decrease/(Increase) in inventories		(20)	(100)
Decrease/(Increase) in trade and other receivables		385	(188)
Decrease in trade and other payables		(1,295)	(1,151)
Movement in provisions		(40)	110
Gain on disposal of subsidiary undertakings		(599)	0
Net finance income		(89)	(108)
<b>Cash outflow from operations</b>		<u>(634)</u>	<u>(3,523)</u>
Net income taxes received		362	474
<b>Net cash inflow/(outflow) from operating activities</b>		<u>(272)</u>	<u>(3,049)</u>
<b>Cash flows from investing activities</b>			
Interest received	8	91	107
Disposal of subsidiary undertakings	16	409	0
Purchase of property, plant and equipment	12	(213)	(324)
Payments to acquire intangible fixed assets	13	<u>(1,212)</u>	<u>(662)</u>

<b>Net cash used in investing activities</b>		(925)	(879)
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary share capital	22	0	2,750
Share issue costs	24	0	(98)
Interest paid	8	(2)	(11)
Repayment of capital element of finance leases	25	(2)	0
<b>Net cash generated by financing activities</b>		(4)	2,641
<b>Net decrease in cash and cash equivalents</b>	25	(1,201)	(1,287)
Cash and cash equivalents at beginning of period	25	2,300	3,557
Exchange adjustments	25	115	30
<b>Cash and cash equivalents at end of period</b>	25	1,214	2,300

## Notes to the condensed financial statements

### 1 Basis of preparation

The financial information contained in these condensed financial statements does not constitute the company's statutory accounts within the meaning of the Companies Act 1985. Statutory accounts for the years ended 31 December 2008 and 31 December 2007 have been reported on, without qualification or drawing attention to any matters by way of emphasis, by the company's auditors and without reference to S237 (2) or (3) of the Companies Act 1985. Whilst the financial information included in this Annual Financial Report Announcement has been computed in accordance with International Financial Reporting Standards ('IFRS') this announcement, due to its condensed nature, does not itself contain sufficient information to comply with IFRS.

In order to comply with the regulatory requirement to include un-edited text in this Annual Financial Report Announcement, page and note references refer to page and note numbers in the Annual Financial Report.

Statutory accounts for the year ended 31 December 2007 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2008, prepared under IFRS, will be delivered to the Registrar in due course. The group's principal accounting policies as set out in the 2007 statutory accounts have been applied consistently in all material respects.

The Annual Financial Report for the year ended 31 December 2008 is available from the website [www.gresham-computing.com](http://www.gresham-computing.com). Printed copies of the Annual Financial Report will be posted to shareholders in due course and they will shortly be available for inspection at the UK Listing Authority's document viewing facility at 25 The North Colonnade, Canary Wharf, London E14 5HS.

This Annual Financial Report Announcement was approved by the Board of Directors on 21 April 2009 and signed on its behalf by CM Errington, Finance Director.

### 2 Responsibility statements under the disclosure and transparency rules

The Annual Financial Report for the year ended 31 December 2008 contains the following statements:

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report and the Chairman's statement include a fair review of the development and performance of the business and position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

### 3 Segmental information

#### Segments

The primary segment reporting format is determined to be geographical segments as the group's risks and rates of return are affected predominantly by differences in geography. Secondary segment information is reported by

business segment. The operating businesses are organised and managed separately according to geography, with each segment representing a strategic business unit that offers the Clareti range of solutions to market.

The group's geographical segments are based on the location of the group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers and destination. The geographical segments relate primarily to operations in the following countries: Asia Pacific: Australia and Malaysia; EMEA: UK and Northern Europe; North America: United States of America, Canada and the Caribbean.

The real time financial solutions segment is a supplier of solutions predominantly to the finance and banking markets. Included within the real time financial solutions segment is the group's IT staff placement business and, because this business contributes significant revenues, certain additional information concerning the results of this business have been provided to aid understanding of the overall segment results. The storage solutions segment is a supplier of solutions predominantly to the enterprise level storage market.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The results of Redstone Software Inc, a subsidiary of the group disposed of on 2 September 2008 (see note 16), consolidated by the group prior to the disposal are included in the North America and the Real Time Financial Solutions segments shown in the following analysis.

### **Primary reporting format - geographical segments**

The following tables present revenue and profit/loss and certain asset and liability information regarding the group's geographical segments for the years ended 31 December 2008 and 2007, all of which are continuing.

Revenue by source	Year ended 31 December 2008			Year ended 31 December 2007		
	Segment revenue	Inter-segment sales	Sales to external customers	Segment revenue	Inter-segment sales	Sales to external customers
	£'000	£'000	£'000	£'000	£'000	£'000
AsiaPacific	3,085	(543)	2,542	2,034	(755)	1,279
EMEA	7,479	(8)	7,471	8,203	(14)	8,189
North America	4,713	(832)	3,881	5,770	(1,815)	3,955
	<u>15,277</u>	<u>(1,383)</u>	<u>13,894</u>	<u>16,007</u>	<u>(2,584)</u>	<u>13,423</u>

Revenue by destination	2008	2007
	£'000	£'000
AsiaPacific	2,491	1,107
EMEA	8,216	9,157
North America	3,187	3,159
	<u>13,894</u>	<u>13,423</u>

Result by segment	Year ended 31 December 2008				Year ended 31 December 2007			
	Asia Pacific	EMEA	North America	Total	Asia Pacific	EMEA	North America	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment result	<u>132</u>	<u>678</u>	<u>(371)</u>	<u>439</u>	<u>(555)</u>	<u>(272)</u>	<u>(406)</u>	<u>(1,233)</u>
Unallocated expenses				<u>(1,258)</u>				<u>(1,720)</u>
Trading loss				<u>(819)</u>				<u>(2,953)</u>
Profit on disposal of subsidiary undertaking				<u>599</u>				<u>0</u>
Net finance revenue				<u>69</u>				<u>84</u>
Loss before income tax				<u>(151)</u>				<u>(2,869)</u>
Income tax credit				<u>181</u>				<u>449</u>
Net profit / (loss) for the year				<u>30</u>				<u>(2,420)</u>

Assets by segment	Year ended 31 December 2008				Year ended 31 December 2007			
	Asia Pacific	EMEA	North America	Total	Asia Pacific	EMEA	North America	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	2,135	4,991	3,594	10,720	1,670	5,684	2,911	10,265
Unallocated assets				2,356				3,592
Total assets				13,076				13,857
Segment liabilities	(352)	(2,506)	(1,938)	(4,796)	(690)	(3,863)	(1,814)	(6,367)
Unallocated liabilities				(423)				(69)
Total liabilities				(5,219)				(6,436)

Other segment information	Year ended 31 December 2008				Year ended 31 December 2007			
	Asia Pacific	EMEA	North America	Total	Asia Pacific	EMEA	North America	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital expenditure:								
Tangible assets	140	33	132	305	9	42	273	324
Intangible assets	0	325	1,030	1,355	0	121	541	662
	140	358	1,162	1,660	9	163	814	986
Depreciation	18	53	208	279	18	74	111	203
Amortisation	8	424	273	705	15	331	192	538
Impairment losses	0	36	0	36	0	0	0	0

Unallocated assets and liabilities comprise certain property, plant and equipment, cash, finance leases and taxation.

Secondary reporting format - business segments

The following tables present revenue, expenditure and certain asset information regarding the group's business segments for the years ended 31 December 2008 and 2007.

#### Revenue by business segment

	2008 £'000	2007 £'000
Real Time Financial Solutions	11,475	10,969
Storage Solutions	2,419	2,454
	13,894	13,423

Included in the Real Time Financial Solutions business segment is:

- £2,790,000 (2007: £2,952,000) of revenue in respect of the IT staff placement business;
- £344,000 (2007: £509,000) of revenue in respect of Redstone Software Inc, which was disposed of on 2 September 2008; and
- £nil (2007: £156,000) of revenue in respect of Gresham SA, which was closed in the year.

#### Other information

Assets by business segment	Year ended 31 December 2008			Year ended 31 December 2007		
	Real Time Financial Solutions	Storage	Total	Real Time Financial Solutions	Storage	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	7,780	2,940	10,720	8,126	2,139	10,265
Unallocated assets			2,356			3,592
Total assets			13,076			13,857
Capital expenditure:						
Tangible assets	173	132	305	69	255	324
Intangible assets	325	1,030	1,355	121	541	662
	498	1,162	1,660	190	796	986

Unallocated assets and liabilities comprise certain property, plant and equipment, cash, finance leases and taxation.

## 4 Taxation

**(a) Tax on loss on ordinary activities**

Tax (credited) / charged in the income statement

	2008 £'000	2007 £'000
<i>Current income tax</i>		
UK Corporation tax credit	(281)	(184)
Foreign Corporation tax charge	66	37
Foreign with-holding tax charge	34	29
	<u>(181)</u>	<u>(118)</u>
Amounts over provided in previous years - UK	0	(357)
Amounts over provided in previous years - Overseas	0	26
Total current income tax	<u>(181)</u>	<u>(449)</u>
<i>Deferred tax</i>	-	-
Total credit in the income statement	<u>(181)</u>	<u>(449)</u>

**(b) Reconciliation of the total tax charge**

The tax credit in the income statement for the year is lower than the standard rate of corporation tax in the UK of 28.5% (2007 - 30%). The differences are reconciled below:

	2008 £'000	2007 £'000
Loss before taxation	<u>(151)</u>	<u>(2,869)</u>
Accounting loss multiplied by the UK standard rate of corporation tax of 28.5% (2007: 30%)	(43)	(861)
Expenses not deductible for tax purposes	50	89
Temporary difference on share based payments	40	73
Increase in losses carried forwards	149	413
R&D tax credit - current year	(280)	(184)
R&D tax credit - prior year	0	(357)
Losses surrendered for R&D tax credit - current year	527	345
Losses surrendered for R&D tax credit - prior year	0	260
R&D enhanced relief	(204)	(115)
Movement on unrecognised temporary differences	(383)	(125)
Income not taxable	(136)	0
Overseas tax	99	19
Other	0	(6)
Total tax credit reported in the income statement	<u>(181)</u>	<u>(449)</u>

**Factors that may affect current tax charges**

From 1 April 2008 the Company's rate of corporation tax on profits reduced from 30% to 28% as a result of changes enacted in the Finance Act 2007. The company has used an adjusted rate of 28.5% for the year ended 31 December 2008 to reflect this change.

**(c) Unrecognised tax losses**

The group has tax losses that are available indefinitely for offset against future taxable profits of the companies in which the losses arose as analysed in (e) below. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the group and they have arisen in subsidiaries that have been loss-making for some time.

**(d) Temporary differences associated with group investments**

At 31 December 2008, there was no recognised deferred tax liability (2007: Nil) for taxes that would be payable on the un-remitted earnings of certain of the group's subsidiaries, as the group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

The temporary differences associated with investments in subsidiaries for which deferred tax liability has not been recognised aggregate to £nil (2007: £nil).

**(e) Deferred tax***Recognised deferred tax*

There is no deferred tax included in either the group balance sheet or group income statement (2007: £nil).

*Unrecognised potential deferred tax assets*

The deferred tax not recognised in the group balance sheet is as follows:

2008	2007
------	------

	£'000	£'000
Depreciation in advance of capital allowances	98	65
Share-based payments temporary differences	51	73
Other temporary differences	225	766
Tax losses	3,790	3,518
Unrecognised deferred tax asset	4,164	4,422
Gross tax losses unrecognised	<u>13,535</u>	<u>12,564</u>

## 5 Earnings / (Loss) per ordinary share

Basic earnings/(loss) per share amounts are calculated by dividing net profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares except when such dilutive instruments would reduce the loss per share.

The following reflects the earnings / (loss) and share data used in the basic and diluted loss per share computations:

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Earnings/(loss) attributable to equity holders of the parent	<u>30</u>	<u>(2,420)</u>
	<i>2008</i>	<i>2007</i>
Basic weighted average number of shares	52,850,890	51,042,671
Dilutive potential ordinary shares:		
Employee share options	-	-
Diluted weighted average number of shares	<u>52,850,890</u>	<u>51,042,671</u>
Basic earnings/(loss) per share - pence	0.06	(4.74)
Diluted earnings/(loss) per share - pence	0.06	(4.74)

The employee share options are not dilutive because in 2007 they would reduce the loss per share and in 2008 they were 'out-of-the-money'. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 6 Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2007: None).

## 7 Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2007</b>	2,518	10,037	1,039	(132)	(6,383)	7,079
Exchange differences on translation of foreign operations	0	0	0	68	0	68
Share based payment	0	0	0	0	42	42
Issue of shares	125	2,625	0	0	0	2,750
Share issue costs	0	(98)	0	0	0	(98)
Attributable loss for the period	0	0	0	0	(2,420)	(2,420)
<b>At 31 December 2007</b>	<u>2,643</u>	<u>12,564</u>	<u>1,039</u>	<u>(64)</u>	<u>(8,761)</u>	<u>7,421</u>
Exchange differences on translation of foreign operations	0	0	0	358	0	358
Share based payment	0	0	0	0	155	155
Exchange differences on disposal/closure of subsidiary undertakings	0	0	0	(107)	0	(107)
Attributable profit for the period	0	0	0	0	30	30
<b>At 31 December 2008</b>	<u>2,643</u>	<u>12,564</u>	<u>1,039</u>	<u>187</u>	<u>(8,576)</u>	<u>7,857</u>

## 8 Disposal of Redstone Software Inc

On 2 September 2008, Gresham signed and completed an agreement to effect the disposal of Redstone, a company in which Gresham held a 91% equity share interest. Consideration comprised a fixed element of £5,000 for the shares owned by the group and £495,000 in settlement of an intercompany balance with a fellow subsidiary of Redstone ("Fixed Consideration"). In addition, consideration included a variable future payment ("Variable Consideration") for the shares contingent on certain sales made by Redstone in the period from disposal to 31 December 2008. All consideration was paid in cash prior to the end of the period and no further Variable Consideration is anticipated.

The disposal has not been disclosed as a discontinued operation since the business did not represent a separate major line of business.

*Assets and liabilities disposed of other than cash*

	£'000
Intangible fixed assets	13
Tangible fixed assets	15
Current assets	26
Current liabilities	(11)
Deferred income	(108)
Total assets and (liabilities) disposed of other than cash and cash equivalents	<u>(65)</u>

*Cash and cash equivalents relating to the disposal*

		£'000
Disposal consideration discharged by means of cash	Fixed consideration	500
	Variable consideration	<u>27</u>
		527
Cash and cash equivalents in Redstone on disposal		(12)
		<u>515</u>
Net cash inflow from disposal of subsidiary undertaking		515
Costs relating to the disposal		(106)
Net cash inflow from disposal of subsidiary undertaking after costs		<u>409</u>
<i>Profit on disposal of Redstone Software Inc</i>		
		£'000
Total consideration		515
Net liabilities (excluding cash) disposed		65
		<u>580</u>
Costs relating to the disposal		(106)
Deferred cumulative foreign exchange transferred from equity		125
Net profit on disposal of Redstone		<u>599</u>

## 9 Principal risks and uncertainties

### *Liquidity*

In the current economy, liquidity risk is something that all companies are seeking to control because access to cash has become a real driver for business compared with prior years. As a result, Gresham has taken a number of proactive steps to mitigate and control liquidity risk, which are discussed in note 21.

### *Regulation*

The financial services market is highly regulated and this regulation continues to evolve in line with the perceived risks in the market. Regulation is typically effected by government, regulatory bodies and industry bodies. Whilst such regulation is generally good news for a solution provider such as Gresham, it is possible that regulation could lead to a change in the market that limits our ability to continue selling. We keep a close track on regulation and seek to ensure that our solutions evolve slightly ahead of regulation so as to mitigate the risk of a regulator limiting our market potential.

### *People*

People are key to Gresham's expertise and ability to deliver on a global basis. Retaining people and allowing them to fulfil their potential is important. Loss of key people could slow our ability to grow the business and we seek to provide rewards and job fulfilment that mitigates this risk.

### *Technology*

Gresham is an innovative group that develops valuable technology and there is a risk that such technology will be made redundant through copying, further advances in technology or dominant competitive pressures. We aim to keep our technology updated so as to meet both existing and emerging requirements and remain vigilant to changes in

market trends. Whilst we carefully assess whether to address emerging trends with new technology there is a risk that the market will ultimately move in a different direction leaving us with technology that no longer addresses the needs of the market.

Wherever possible we seek to protect our technology through patent applications. We also rely on trade secret, copyright and trademark laws, as well as the confidentiality and other restrictions contained in our respective sales contracts and confidentiality agreements to protect our proprietary rights. These legal protections afford only limited protection.

### 10 Events since the balance sheet date

On 1 April 2009, the group entered into a new contract with a global banking group (the "Bank") for the provision of software, services and support in respect of its cash management, payment gateway and cash reporting capabilities. The contract has been constructed to enable the Bank to build significant annuity revenues over time by delivering added value services to their Tier 1 customer base in key market sectors. The Bank will use their own range of leading core banking solutions, enhanced by Gresham's capabilities, products and services, to deliver real-time, automated, integrated global solutions. Gresham is expected to be an integral part of the Bank's team, working closely with them to secure new revenues. The Bank and Gresham are working together to deliver solutions to the Bank's core customers, initially focused on Europe, the Middle East and Africa. Gresham's success, measured in revenue streams, is closely tied to those of the Bank. This is a strategic deal for Gresham and brings together many aspects of Gresham's technology and know-how in the cash management and payments arena. It represents the culmination of our investment and focus in these core areas.

On 9 April 2009, the group exchanged contracts for the disposal of its freehold property in Southampton for a cash consideration of £875,000, £87,500 payable on exchange and the balance to be paid on completion (anticipated to be May 2009). The carrying value of the freehold property was £860,000 at the date of this exchange, which taking into account the costs of the transaction gives rise to no profit or loss on disposal. The group has entered into an agreement with the purchaser of the premises to lease it back on completion (anticipated to be May 2009) at a market rent for a ten year period, with a 5 year break option.

### 11 Additional information

The following additional information is not extracted from the Annual Financial Report:

#### *Related party transactions*

No related parties transactions have taken place during the year that have materially affected the financial position or performance of the company.

#### *Adjusted EBITDA reconciliation*

Adjusted EBITDA is calculated as EBITDA before non-cash share option charges, reconciled as follows:

	2008	2007
	£'000	£'000
Profit / (Loss) after tax	30	(2,420)
Depreciation and impairment	315	203
Amortisation	705	538
Interest net	(69)	(84)
Taxation	(181)	(449)
Option charge	155	42
Adjusted EBITDA	955	(2,170)
Profit on disposal of Redstone Software Inc	(599)	0
Adjusted EBITDA before Redstone disposal	356	(2,170)

END