

## Annual Financial Report 2012

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### **Gresham Computing plc**

*Registered Number 1072032*



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Gresham Computing plc  
Registered Number 1072032  
A public limited company incorporated in England and Wales

### Directors

K Archer	Non-Executive Chairman
C Errington	Chief Executive Officer
R Grubb	Chief Financial Officer
M Royde	Senior Non-Executive Director

### Secretary

R Grubb

### Registered Office

Sopwith House  
Brook Avenue  
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SO31 9ZA

### Broker and Financial Adviser

Nplus1 Singer Capital Markets Limited  
One Bartholomew Lane  
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EC2N 2AX

### Auditors

BDO LLP  
Arcadia House  
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Ocean Village  
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### Solicitors

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Whiteley  
Hampshire  
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### Registrars

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BN99 6DA

### Bankers

HSBC Bank plc  
165 High Street  
Southampton  
SO14 2NZ

**K Archer*****Non-Executive Director and Chairman***

Ken Archer was appointed to the Board in June 2010 and became Non-Executive Chairman in November 2010. Ken has over 35 years of experience in the IT industry most recently as CEO of SmartStream Technologies following their buyout by TA Associates from 3i. In November 2007, SmartStream was acquired by Dubai International Financial Centre Investments valuing the company at approximately £208 million. Ken continued as CEO following the acquisition until April 2009.

**M Royde*****Senior Non-Executive Director and Chairman of Audit and Remuneration Committees***

Max was appointed to the Board in August 2009 and is the Group's Senior Independent Non-Executive Director. Max is a Partner at Kestrel Partners LLP, a smaller company fund management business founded in October 2009, having previously been at KBC Peel Hunt, the mid-cap broker, for over 10 years where he latterly held the position as Managing Director responsible for the firm's technology franchise.

**C Errington*****Executive Director and Chief Executive Officer***

Chris was appointed CEO in 2010 having previously held the position of CFO for 6 years. Prior to joining Gresham, he worked for Ernst & Young and BDO with a focus on fast growth and listed companies in the technology sector. Chris has a first class honours degree in Biochemistry and is a fellow of the Institute of Chartered Accountants in England and Wales.

**R Grubb*****Executive Director and Chief Financial Officer***

Rob was appointed CFO in 2011 having previously joined Gresham as Group Financial Controller in 2009. Rob's previous positions include Audit Manager for Ernst & Young in both the UK and New Zealand, and Group Accountant for Lucite International. Rob is a member of the Institute of Chartered Accountants of Scotland.

2012 was a strong year for Gresham in both strategic and financial terms. CTC is a new and competitive technology in the world of financial transaction management and we expect to gain strong traction with new customers and generate new CTC revenues in 2013. We have significantly increased our budgeted sales and marketing spend for 2013 focused on CTC, slightly ahead of our strategic plans but in line with positive market and prospective customer feedback.

Solid profit contributions from our legacy Software businesses have allowed us to maintain acceptable group profitability and free cash flow, whilst continuing to fund strategic product development to meet customer and market demand. The successful partnering with ANZ for CTC was a milestone event for the Company as it verified the market opportunity for CTC. Additionally we were successful in selling and successfully deploying CTC to Jones Lang LaSalle, which has the additional benefit of demonstrating the relevance of our CTC offerings to non-Bank verticals. This represents an important diversification of vertical markets representing further growth opportunities for CTC.

In support of the Company's intended transformation to focus on our CTC offering for growth, management have invested in a global sales and support organisation with new hires in London and Sydney with further plans for expansion in Asia. Our customers operate globally and need us to provide support in all geographies. Our recently announced strategic alliance with FDM Group will further support our global implementation capacity to enable us to meet peak demand by complementing our own staff with CTC-trained FDM consultants commensurate with client demand.

Despite challenging market conditions in financial services in 2012, we have built a solid pipeline of opportunity and an organisation capable of selling and delivering solutions to banks and non-banks globally.

I would like to express my thanks to the Board and the work force as a whole for their contribution to the successes of 2012. We have a clear vision; our strategy to achieve the vision is communicated and understood by our stakeholders: shareholders, customers and staff alike. The Company is positioned, motivated and funded to build on this success in our chosen markets. I look forward to working with the team to grow profitable revenue through deployment of our distinctive product in 2013 and beyond.

Ken Archer  
Chairman  
25 March 2013

Gresham Computing plc is a specialist provider of software based solutions that enable customers to achieve real-time financial certainty in transaction and cash management. We aim to be the market leader in transaction integrity solutions – giving financial institutions and their customers, real-time financial certainty in their cash and transaction processing.

Results for the year ended 31 December 2012 were again improved on prior years, with underlying revenues up 6% to £11.9m, total revenues up 4% to £12.1m, profit before tax up 15% to £1.6m and Adjusted EBITDA up 10% to £2.2m. The Group's financial position remains strong with cash of £2.9m at year end and no debt. All parts of the business delivered a strong performance in 2012, with underlying revenues in our core real-time financial solutions business up 10% year on year as a result of the continued traction with our transaction and cash management solutions.

Alongside this growth, we continued to invest a proportion of near term operating cash in the development of Clareti Transaction Control (CTC) to provide the Group with a platform for longer term profitable growth. CTC both complements our existing cash management focus and provides a new market opportunity for us in controlling financial transactions. We have also now invested in a global sales and support organisation with new hires in London and Sydney with further plans for expansion in Asia to serve our chosen markets.

We fully expect 2013 to be a pivotal year for the Group as CTC is deployed to new customers and we further strengthen the annuity revenues which underpin our strategy and financial performance.

## Financial Review

### Trading

The following table summarises the Group's financial performance in 2012:

	31 December 2012	31 December 2011	
	£m	£m	%
Software	3.2	3.3	-3%
Real-Time Financial Solutions	8.7	7.9	10%
Underlying revenues	11.9	11.2	6%
Business closures	0.2	0.4	-50%
Total revenues	12.1	11.6	4%
Profit before tax	1.56	1.36	15%
Interest income	(0.03)	(0.03)	0%
Amortisation and depreciation	0.42	0.32	31%
Share option charge / (credit)	0.20	0.30	-33%
Adjusted EBITDA profit	2.15	1.95	10%
Profit after tax	1.97	1.75	13%
Basic Earnings per Share (pence)	3.38	3.01	12%
Cash	2.89	3.60	-20%

*EBITDA refers to earnings before interest, tax, depreciation and amortisation. Adjusted EBITDA refers to EBITDA adjusted for share option charge / (credit).*

Business closures relate to the termination of one of the Group's unprofitable RTFS solutions during the year ended 31 December 2012. This closure was not a discontinued operation as its contribution to the Group was not considered significant. The following revenue discussion and analysis is in respect of underlying revenues and excludes this business closure.

Underlying revenues grew 6% to £11.9m, with revenues in our core real-time financial solutions business growing 10% year on year. Revenues from our software business reduced slightly compared to the prior year, as planned.

Our business model is to implement solutions through professional services work and to then earn annuity revenues based on number of customers and their usage. In 2012, 52% (2011: 48%) of our underlying revenues arose from annuity maintenance and Software as a Service (SaaS) contracts, 36% (2011: 40%) from professional services work and the remaining 12% (2011: 12%) from sales of licences. We include only third party costs in costs of sales and achieved a total gross margin of 78% (2011: 81%), the slight reduction resulting from our use of third party contractors to deliver

some professional services work. Our primary cost of sales relates to Clareti Virtual Bank Account solutions, where we earn an average mixed gross margin of approximately 75%, after paying out a share of relevant revenues to a partner for use of their technology in the overall solution. We have no cost of sale associated with our Software business, which increases the Group's overall gross margin significantly.

Underlying staff costs, excluding share option charges and including capitalised development staff costs, were £6.4m (2011: £5.9m), which is consistent with the growth in staff numbers, including the recruitment of new sales resource, developers and graduates.

Other administration costs decreased by £0.3m on 2011, with the restructuring of a number of business areas commenced and provided for in 2011 completing in 2012.

The resulting profit before tax was £1.6m (2011: £1.4m) with adjusted EBITDA profit of £2.2m (2011: £1.9m).

## Working capital and funding

The following table summarises the Group's cash movements in 2012:

	2012	2011
	£m	£m
Cash at 1 January	3.6	3.1
Net cash inflow from operations	1.0	1.8
Net cash (used in) investing	(1.7)	(1.3)
Net cash generated from financing	0.0	0.0
Cash at 31 December	2.9	3.6

Net cash outflow for 2012 was £0.7m, which was in line with our expectations given the impact of a major customer paying us early in December 2011 rather than January 2012 of £0.3m and cash outflows of £0.4m arising from the business closure that was provided for in 2011 but effected in 2012.

We continue to invest a proportion of near term operating cash in the development of CTC and upgrades to our existing products to provide the Group with a platform for long term profitable growth. In 2012, we spent £1.5m of cash on this development, received £0.3m of associated R&D tax credit and spent £0.2m on capital expenditure to further improve our IT infrastructure and security.

We actively control all aspects of working capital, including the very real cash risks associated with foreign exchange. Overall, we remain focused on managing cash with an objective of funding our product development and growth plans from cash generated by the business, thereby at least sustaining our underlying cash reserves.

## Taxation

For the year ended 31 December 2012, the Group has recorded a net tax credit of £0.4m, mainly comprising a deferred tax credit of £0.1m (2011: £0.2m) arising from the recognition of prior trading tax losses and an R&D tax credit of £0.3m (2011: £0.2m). The accumulated deferred tax asset of £0.5m will reverse as a non-cash taxation charge to the income statement in future periods whilst the R&D tax credits are receivable in cash during the year following recognition.

At 31 December 2012, the Group had total tax losses carried forward for offset against future trading profits of £10.1m (2011: £12.2m). As a result, the Group has no material tax charge or liability and remains sheltered from UK tax in particular for quite some time.

## Real-time financial solutions

In our real-time financial solutions business, approximately 44%, or £3.8m, (2011: 38%, or £3.0m) of underlying revenues arose from annuity maintenance and SaaS contracts, 47% or £4.1m (2011: 58% or £4.6m) from professional services work and 9% or £0.8m (2011: 4% or £0.3m) from sales of licences. In 2012, we saw high utilisation of staff (and sub-contractors) deploying our cash and transaction solutions, especially in Asia Pacific, which primarily accounted for the Group's revenue growth and from which our annuity income will continue to grow over time.

The increase in annuity revenue of nearly 30%, from £3.0m to £3.8m is a pleasing result and one consistent with our strategy of building such long term recurring revenues over time. Our professional services activity is geared to drive this increase in annuity over time.

## Clareti Transaction Control

Clareti Transaction Control (CTC) is a new and innovative technology designed to provide banks and financial institutions with real-time financial certainty in their transaction processing. At the core of CTC is a versatile high performance transaction matching engine around which we have built innovative and market leading functionality targeted at specific financial transaction control requirements.

User Developed Applications (UDAs) are commonplace at the majority of global financial institutions and corporates, most often in the form of bespoke internally developed solutions and / or Excel. They have been deployed to manage areas of the business which would ordinarily be controlled by enterprise class software, either for historic reasons or where incumbent reconciliation vendors are unable to respond, or both.

Customers find themselves unable to safely migrate from these UDAs to technology products that are fit for purpose because existing vendor solutions are either unable to control the transactions in question or on-boarding to a vendor solution is at best prohibitively expensive and at worst unlikely to actually complete in the required project timeframe, or at all. This 'technology trap' perpetuates unexpected control breaks, reliance on key people and old internal technology, introducing a higher risk of fraud and error and an inability to grow the business with an adequate control profile.

CTC addresses all these reconciliation technology issues, providing customers with access to innovative functionality and high performance whilst also, and all importantly, providing a robust migration path that is cost effective and certain (which we term 'rapid on-boarding'). Proof of concept projects with several major financial institutions have proven CTC on-boarding speeds of hours, which compares to existing proposals from incumbent vendors running from weeks to months (and in many cases, where the incumbent is unable to respond at all). This ability to rapidly on-board to CTC releases the business from the 'technology trap', opening up new opportunities including; a significant reduction in operating risk, demonstrably tighter and more effective controls together with an ability to do more business.

Where a business has a large backlog of reconciliations currently being controlled by UDAs, CTC provides a credible migration path to the safety of a controlled enterprise class product environment.

In December 2012, we completed a benchmark study with GigaSpaces and Intel demonstrating that CTC can process 500,000 transactions per second using 'in memory' matching. The ability to manage extreme processing in-memory is a key component of the GigaSpaces XAP solution that Gresham used as a foundation for the CTC solution. This industry-leading, benchmarked performance, equivalent to 1.8 billion transactions per hour, was achieved by running the application in a pure data and compute GigaSpaces grid with no database attached. We can therefore deal with current and future extreme performance requirements.

In January 2013, we announced that Jones Lang LaSalle had signed up for CTC to automate their receipts matching process, increasing their level of automation in matching and allocating incoming receipts for the UK property management business. This win demonstrates CTC's relevance to non-bank vertical markets, validating our strategy of not being overly reliant on the sometimes turbulent banking markets as a sole target for CTC.

In January 2013, we announced a partnership with FDM Group to provide us with skilled technical resource 'on demand', giving us additional flexibility for delivery of global CTC assignments from an existing and trusted provider of skilled resources to the global financial institution market.

In February 2013, CTC was for the first time included in CEB Tower Group's market report on Reconciliation Applications, scoring highly in their feature audit. We are pleased to have been asked to participate in this report and look forward to providing relevant customer case studies and experience in future years.

Couple the technological innovation and excellence of CTC with a Gresham team that comprises some of the best, if not the best, reconciliation technology experts in the world and we firmly believe that Gresham has a compelling market proposition.

Our opportunity is to now re-vitalise what has become a stale market for reconciliation technology with better technology, better people and better solutions. The next phase for us will be securing further customer sites for CTC, an objective we expect to report strong progress with in 2013.

## Clareti Virtual Bank Accounts

Clareti Virtual Bank Accounts is a real-time cash management solution comprising Clareti Integration and our partner CashFac's Virtual Bank Technology® (VBT). Our target customer for this solution is typically a major bank that in turn offers the solution to corporate customers as a cash management service. This bank channel approach provides us with significant gearing, through indirect access to the bank's extensive customer base, initially in one region but with opportunity for expansion to new geographies and customers. Once a bank channel customer is live, we earn revenue on



a usage basis and this customer use annuity element continued to grow strongly during 2012, delivering an 80% year on year increase in recognised revenue as customer numbers and use grew.

The Clareti Virtual Bank Accounts solution provides significant control and efficiency improvements for those managing cash, especially client money or client funds. Re-keying and other high cost, manually intensive operations are removed allowing the corporate to streamline the entire process of managing individual client funds whilst demonstrating compliance with regulatory requirements.

Clareti Integration provides a two way link between the bank's payment systems and CashFac VBT, facilitating a flow of transactions between the two in real-time. Gresham also provides bespoke integration components to provide a two way link between the corporate user's back office systems and the solution itself.

We provide the Clareti Virtual Bank Accounts solution to Barclays Bank PLC in the UK, who market the solution as Barclays Integrated Funds Solution (IFS) and Barclays Account Management Solution (AMS), and ANZ in Australia / New Zealand, who market the solution as ANZ Cashactive Virtual and ANZ Cashactive Control. The majority of the Group's revenue growth for 2012 arose from the increase in professional services and annuity revenues associated with these contracts.

### Clareti Banking and Lending

These core banking and lending systems are sold predominantly into the Caribbean banking market by our standalone wholly owned Canadian subsidiary, Gresham Computing Inc. On 8 March 2013, we announced we had signed and completed an agreement to sell our 100% equity share interest in Gresham Computing Inc (Canada). For further details see note 24.

### Software

In our Software business, approximately 75% or £2.4m (2011: 75% or £2.5m) of our revenues arose from annuity maintenance and SaaS contracts and the remaining 25% or £0.8m (2011: 25% or £0.8m) from sales of licences. The Software business continued to generate strong revenues, profitability and cash flows during the year.

### VME (Virtual Machine Environment)

We provide key VME software components and support to a stable base of predominantly UK customers and whilst we continue to receive license revenues from software upgrades, our primary source of revenue is from support and maintenance.

### EDT (Enterprise Distributape)

We provide global companies with Tape Integration and Tape Connectivity Optimization software in the form of its market leading EnterpriseDistribuTape (EDT) product, which is widely used in IBM's Tivoli Storage Manager (TSM) backup and archive environments. We continue to sell new licenses for EDT, as users expand their usage, but our primary source of revenue is from support and maintenance.

### Market

The general economic environment remains depressed around the world, however there are indications that market conditions are improving in many sectors, including the global financial institution market.

Our product set remains relevant to the new world economy and continues to deliver to the customer agenda but we are conscious of ever growing demands and so continue to invest in new product and upgrades. We firmly believe there is a market for our new CTC technology in the financial transaction market where we see other vendors reducing their investment in technology and seeking to perpetuate what are often at the core old inflexible legacy software solutions designed for a different millennium. What other vendors require is a complete re-write of their software but in the current economy and with demanding customers to service that simply isn't possible – and there lies our opportunity, with a new and agile solution in CTC that is fit for purpose in this millennium, not the last one.

### Customers

Our strategy is to build long term annuity revenues from existing and new customers to increase the visibility of revenues going into future years. Whilst we typically sell our solutions to banks and financial institutions, we often then roll-out the solution to the corporate customers of these banks and financial institutions. We made good progress with growing our annuity base in 2012 and expect further strong growth in 2013, with a growing contribution from CTC.

Gresham has a loyal and diversified customer base with a number of our key software customers having now been on maintenance with Gresham for over 30 years. Typical contract periods for Software maintenance are in the 1 year to 5 year band, with a weighting towards the 1 to 2 year period. Banking contracts for a deployed solution tend to be in the 3 to 10 year band. Our general experience over the years is one of automatic contract renewal at the end of the term and this has not been significantly affected by the economic downturn.

## Strategy and vision

We are investing a proportion of near term operating cash in the development of new solutions to improve the growth opportunities available to us both from new offerings but also from upgrades to our existing products for the benefit of customers. We are also investing in our sales and marketing capabilities ahead of bringing this new technology to market.

Our vision is to provide software based solutions that enable customers to achieve real-time financial certainty. We aim to be the leader in reducing control failure risk and optimising business performance through the integration and use of real-time financial transaction data in core business processes.

Our objectives are to win new CTC customers, grow the existing Clareti Virtual Bank Account business (more customers, new regions and new channels) and sustain (or grow) the performance of all other areas of the business. We continue to review underperforming areas and seek opportunities to improve them, a process that led to our strategic disposal of the Clareti Banking and Lending business in early 2013.

Future revenue growth will be led by our flagship technology, CTC.

## Investment in development of new solutions

We have established and staffed a product development centre in Bristol UK, charged with delivering new transaction and cash management technology for both existing and new customers in the financial transactions market. The primary output from this development activity is CTC.

## Outlook

2012 was a strong year for Gresham in both strategic and financial terms. CTC is a new and competitive technology in the world of financial transaction management and we expect to gain strong traction with new customers and generate new CTC revenues in 2013. We have significantly increased our budgeted sales and marketing spend for 2013 focused on CTC, slightly ahead of our strategic plans but in line with positive market and prospective customer feedback.

We continue to make strategic hires to strengthen our team, including a graduate recruitment program, with a strong 2013 focus on CTC sales and delivery resource.

Our financial position remains strong and we have no debt. We will continue to invest a proportion of near term operating cash in the development of CTC and existing solutions.

I am pleased to say that our growth plans remain on track and the management team remains excited about the future prospects for the Company.

Chris Errington  
Chief Executive Officer  
25 March 2013

*Registered Number 1072032*

The directors present their report and the Group financial statements for the year ended 31 December 2012.

## **Results and dividends**

The Group profit for the year, after taxation, amounted to £1,965,000 (2011: £1,747,000). The directors do not recommend a final ordinary dividend, which leaves the profit of £1,965,000 be added to reserves. No dividends are recommended and none were paid in the prior year.

## **Principal activities**

The Group's principal activities during the year continued to be the provision of Real Time Financial Solutions and Software Solutions.

## **Business review and future developments**

The Chairman's Statement and CEO Operational Review on pages 3 to 8 of this report cover the directors' review of business performance, including a view on development and its position at the year end, using key performance indicators employed by the directors in monitoring the business. The statements also include an indication of likely future developments in the business of the Group.

The market, principal risks and uncertainties facing the Group are discussed below.

## **Financial instruments**

### **Treasury policies**

The objective of the treasury team is to manage the Group's financial risk; consider and where appropriate secure cost-effective funding for the Group's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group. The treasury team is accountable through the Finance Director to the Board.

The Group finances its activities with cash and short-term deposits, as disclosed in note 17 and 20 to the Group financial statements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Group's operating activities.

Where appropriate, the Group enters into financial derivative transactions, specifically through forward and option currency contracts. The purpose is to manage the currency risks arising from the Group's operations. It is and has been throughout 2012 and 2011 the Group's policy that no trading in derivatives shall be undertaken.

Financial instruments give rise to foreign currency, interest rate, credit and liquidity risk. Information on how these risks arise is set out in note 20, as are the objectives, policies and processes agreed by the Board for their management and the methods used to measure each risk. Derivative instruments are used where appropriate to change the economic characteristics of financial instruments in accordance with the Group's treasury policies.

## **Financial position**

### **Capital management**

Capital comprises the share capital and reserves, and the working capital of the Group as set out in the notes to the Group financial statements. The key element is cash and cash equivalents totalling £2,891,000 for the year ended 31 December 2012.

The primary objective of the Group's capital management is to ensure that it maintains sufficient funds in order to support its business, fund on-going development and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions as is discussed in note 20. To maintain or adjust the capital structure, the Group may issue new shares subject always to the rules governing such new issues.

No changes were made in the Capital management objectives, policies or processes during the year ended 31 December 2012.

## Distributions

No dividends were paid or proposed during the year.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out within the Chairman's Statement and CEO Operational Review. In addition, note 20 to the financial statements includes the Group's objectives; policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has sufficient financial resources together with good relationships with a number of customers and suppliers across different geographic areas and industries. The Group also has access to a strong underlying cashflow arising from a long established maintenance business with long standing blue chip customers. The Group offers core solutions to market that match well with both bear and bull markets, providing efficiency cost savings and working capital enhancements. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the economic conditions.

After making enquiries, 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 annual report and financial statements.

## Corporate Governance

The Group is committed to meeting high standards of corporate governance and as such the Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value. The Group's Corporate Governance Statement is set out on pages 16 to 21.

## Market landscape and risks

### Market landscape

Gresham sells solutions into a global market, primarily to large organisations and with a key focus on the financial services sub market segment as both customers direct and partners to resell out solutions to their own corporate customers.

The financial services markets are large and remain driven principally by technology and the need to service customers differently in an ever more regulated and customer demand led environment. Whilst there are strong drivers for market change, such as regulatory pressure and customer demand, the pace of change is typically slower in the financial services market. However, once a decision to change has been made it tends to be followed through with more vigour than other markets. The result is long lived embedded technology that remains part of the market infrastructure for extended periods of time. Financial institutions are looking for trusted vendors that can offer solutions targeted at the changes they are facing, such as the use of real-time financial information and specifically cash and transaction management solutions. Lengthened buying cycles are typical of the financial services market we operate in attention is heavily focussed on return on investment, often with the need to demonstrate year one positive returns. Regulation of financial institutions in the area of liquidity management now seems likely and we believe this will be a positive factor for the Group since such regulation invariably shortens buying cycles.

Gresham remains well placed to deliver against this challenging and changing market landscape with its suite of Real-Time Financial Solutions since they focused primarily on cash and transaction management. We are also prepared to earn revenue based on the end customer's success with the solution, which is particularly attractive when financial institutions are seeking rapid payback and to avoid large one off up-front costs.

The global storage market still has to deal with the back-up and archiving requirements for ever increasing volumes of data, notwithstanding the Global Financial Crisis. Issues the market faces include management of storage growth, continuous data protection and mitigating risks associated with removable storage, often with resources that are shrinking. Although both capital and revenue expenditures have been cut back across most industries because of economic conditions, our core storage offerings continue to appeal to customers since they significantly enhance storage management efficiencies and are designed to enhance the use of existing hardware rather than require replacement.

The market for VME software is inherently linked to the Fujitsu VME hardware platform. Whilst the number of users of this platform has contracted over the last five years the remaining population are in general very large government departments where the likelihood of attrition in the next five years is, in our opinion, still remote. Fujitsu has committed to supporting the VME hardware platform until at least 2020 and thereafter plans have been released for a continuation of

the VME platform on a Fujitsu cloud basis. As a result, we expect to see software revenues from support and maintenance to continue over a relatively long and secure period of time.

## Market risks

### *The Global Financial Crisis*

Almost without exception, global markets have been severely affected by the financial crisis that began in 2008 and great uncertainty remains in most markets despite the early signs of recovery. We continue to work with our customers to solve their problems in innovative and different ways so as to provide alternative solutions that can deliver them a competitive position in a difficult market. Exactly what the long term impact of the financial crisis on the Group's activities will be is hard to predict but we continue to adapt our business behaviours accordingly. We remain suitably cautious when formulating budgets and strategies. The market changes in cash and transaction management arising from the financial crisis present the Group with new and enhanced opportunity and we are seeing more interest in these solutions generally. Increased regulation of compliance in the financial institution market, in addition to the well-publicised failure of financial institutions in both control and culture, are generally positive for the Group since it will assist in driving demand and shortening purchasing cycles.

### *Long lead time and timing of deals*

Our target markets are dominated by truly global large organisations seeking enterprise class solutions to often mission critical issues. For example, a bank seeking to embed the use of real-time data for the first time will normally do so having carefully considered the knock-on impact that such a change will have across the whole business before proceeding. As a result, the timing of a decision to buy new technology is often difficult to predict and is predicated on the momentum of change in a particular customer, or arising from a regulatory compliance requirement. This uncertainty over decision making can impact the forecasting of revenue recognition in the financial statements, with deals falling in one period or the other dependent on customer specific issues. Gresham works closely with organisations and seeks to become a trusted provider because such status tends to bring more clarity to the buying process and reduces, but does not eliminate, the uncertainty over timing of orders.

### *Global markets*

Our customers tend to operate on a global basis and are looking for a seamless service from vendors treating them as one business regardless of location. To service these global markets effectively, Gresham has established operations in key locations to service customers globally and we also work closely with partners to extend our global reach further.

### *Highly competitive and dominated by giants*

Our target customers tend to buy solutions and embed them in their businesses for significant periods of time. This coupled with large market size provides significant opportunity for vendors leading to a high level of competition. Vendors in this market tend to be either very large or niche players. Over time, the niche vendors are often absorbed into the larger organisation through acquisition perpetuating the dominant position of key vendors. Gresham adopts a strategy of being a flexible niche player offering expert and innovative solutions to specific market problems to address this market risk.

### *Foreign exchange*

Operating globally and especially in the financial services and storage markets often brings with it a requirement to trade in US Dollar, Australian Dollar, Malaysian Ringgit and Euro. This introduces exchange rate volatility risk which is mitigated where significant through the use of foreign exchange instruments.

## Principal risks and uncertainties

### Liquidity

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. Gresham monitors its liquidity very closely and regularly as discussed in note 20.

### 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 particular products. 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. We continue to invest on a graduate intake scheme which has proven successful in bringing new ideas and skills into the business.

## Technology

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. We continue to invest on a graduate intake scheme which has proven successful in bringing new ideas and skills into the business.

## Significant relationships

The Group has a customer relationship with a banking customer within its EMEA RTFS segment and a banking customer within its APAC RTFS segment, both of which are considered by the directors to be individually significant relationships; revenue from these relationships both individually exceeded 10% of the Groups' revenue.

In the opinion of the directors, the Group does not have any other individually significant relationships which are critical to the success of the Group's strategy.

## Research and development

The Group actively reviews technical development in its markets with a view to taking advantage of the available opportunities to maintain and improve its competitive position through our own development. The Group has continued to invest in product research and development during the year through the dedicated product development centre in the UK.

## Events after the Reporting Period

On 8 March 2013, we announced we had signed and completed an agreement to sell our 100% equity share interest in Gresham Computing Inc (Canada). For further details see note 24.

## Employees

Each of the Group's segments review strategies for retaining staff on an ongoing basis that are appropriate to the local geographic and industry economic climate. These strategies include the provision of competitive terms and conditions, administration of and matched contribution to a defined contribution pension scheme, consideration of family needs, provision of training where required and, in some cases, share options and bonuses.

Employees are invited to attend regular meetings within individual segments throughout the Group, in addition to regular Group-wide communications. Performance appraisals are made annually or more frequently if required, to ensure that employees are getting sufficient support from the Group (including training needs) in order to satisfactorily complete their job requirements.

## Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

## Environmental considerations

The directors consider that because of the nature of the activities of the Group it does not have a significant impact on the environment in which it operates. However, the Group recognises the importance of environmental responsibility and seeks, wherever possible, to reduce its environmental impact through focus on areas that it can control such as energy saving, recycling and appropriate disposal of old computer equipment and mobile phones.

We continue to look at ways of controlling our environmental impact.

## Directors and their interests

The directors at 31 December 2012 and their connected persons interests in the share capital of the Company (all beneficially held, other than with respect to options to acquire ordinary shares which are detailed in the analysis of options included in the report on directors' remuneration), are as follows:

	Ordinary shares of 5 pence each	
	31 December	1 January
	2012	2012
K Archer	100,000	100,000
M Royde	42,472	42,472
M Royde - Kestrel Opportunities (see note below)	5,012,854	4,162,854
C Errington	2,268	2,268
R Grubb	6,405	6,405

M Royde's beneficial interest in the share capital of the Company includes shares held directly by Kestrel Opportunities, a cell of Guernsey Portfolios PCC Limited. Kestrel Partners LLP, which M Royde is a partner of and holds a beneficial interest in, is the investment manager to Kestrel Opportunities. Kestrel Opportunities share holding is disclosed under Major interests (i.e. those >3%) on page 13.

There have been no further changes in the directors' interests disclosed above from 31 December 2012 to 25 March 2013.

## Directors' liabilities

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' and Officers' liability insurance with an indemnity limit of £10 million has been purchased in order to minimise the potential impact of proceedings against directors.

## Major interests in shares

The Company has been notified of the following interests representing 3% or more of the issued ordinary share capital of the Company as at 25 March 2013:

	Number	Percentage Held
Schroders plc	7,000,000	12.04%
Henderson Global Investors	5,780,476	9.94%
JO Hambro Capital Management Limited	5,780,000	9.94%
Kestrel Opportunities	5,012,854	8.62%
SW Purchase	3,797,139	6.53%
MA Green	3,273,290	5.63%
Herald Investment Trust plc	2,804,100	4.82%
The Valentina Discretionary Trust	2,803,091	4.82%

## Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2012, the Group had an average of 40 days (2011: 47 days) purchases owed to trade creditors. Group outstanding purchases days are presented as there is no meaningful measure for the Company only.



## Charitable or Political donations

No donations were made in 2012 or 2011.

## Social and Community

No Social or Community review has been performed for 2012 or 2011.

## Special business at the annual general meeting

The special business to be conducted at the AGM covers the directors' authority to allot shares and the partial disapplication of pre-emption rights.

Resolutions will be proposed to renew the authorities given to the directors to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £968,932.97 representing one-third of the issued ordinary share capital and to allot and grant rights over shares for cash up to a maximum nominal amount of £348,816, representing 12% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

In the opinion of the directors, the passing of these resolutions is in the best interests of the shareholders.

## Additional information for shareholders

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK Law.

At 31 December 2012, the Company's issued share capital comprised:

	Number	Nominal value £	% of total Share capital
Ordinary shares of £0.05 each	58,135,978	2,906,799	100%

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights.

## Ordinary shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting and published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods).

The Company's articles of association may only be amended by a special resolution at a general meeting of the shareholders. Directors are reappointed by ordinary resolution at a general meeting of the shareholders. The Board can appoint a director but anyone so appointed must be elected by an ordinary resolution at the next annual general meeting. Any director who has held office for more than three years since their last appointment must offer themselves up for re-election at the annual general meeting.

## Significant interests

Directors' interests in the share capital of the Company are shown in the table on page 13. Major interests (i.e. those >3%) of which the Company has been notified are shown on page 13.

## Change of control

In the event of a change of control, employee share options granted under the Share Options Plans 2010 will either accelerate vesting, will be rolled-over to the acquiring Company's shares or will lapse, depending on the circumstances of the change. Further details are provided in note 22 to the financial statements.



There are no agreements between the Group and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid.

### Power of directors to issue or buy back shares

The directors' existing authorities to allot and grant rights over the un-issued share capital and to allot and grant rights over the un-issued share capital for cash without first making a pro rata offer to all existing shareholders are due to expire at the upcoming AGM. Resolutions will be put to shareholders at the upcoming AGM of the Company to renew previous authorities granted.

The directors have no existing authorities to buy back shares over and above the authorities conferred by, and subject to, the Companies Act.

### Auditors

A resolution to re-appoint BDO LLP as the Group's auditor will be put to the forthcoming Annual General Meeting.

### Directors' statement as to disclosure of information to auditors

The directors who were members of the Board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Group's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

By order of the Board

R Grubb  
Company Secretary  
25 March 2013

The Company is committed to meeting high standards of corporate governance and as such the Board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value. This statement explains how the Company has applied the main and supporting principles of corporate governance and describes the Company's compliance with the provisions of the UK Corporate Governance Code published in May 2010 by the Financial Reporting Council and available at <http://www.frc.org.uk/corporate/ukcgcode.cfm>.

## Statement by the directors on compliance with the UK Corporate Governance Code

The Company has complied with the relevant provisions set out in the UK Corporate Governance Code throughout the year with the exception of the matters referred to below:

Provision B1.1 requires the Company to have independent non-executive directors. The Company did not comply with this provision. Provision B1.2 also requires that the board should have at least two independent non-executive directors. The Board does not have any non-executive directors considered independent as a result of the participation of all directors in the Group's share option scheme during the year, and specifically in respect of M Royde, as a result of his interest in Kestrel Opportunities and its interest in Gresham as noted on page 13. The need for and appointment of independent non-executive directors is however kept under review taking into account changes in the Company's size, complexity and circumstances.

The absence of non-executive directors deemed independent also leads to the Company not complying with the following Provisions:

- Provision D1.3 which states remuneration of non-executive directors should not include share options or other performance-related elements;
- Provisions C3.1 and D2.1 in respect of the composition of Audit and Remuneration Committees respectively. In addition, the Audit Committee has not included one member with recent and relevant financial experience as also required by provision C3.1.

Provisions B2.1, B2.2 and B2.4 require the formation of a nomination committee to lead and oversee the application of Code principles as they relate to Board and senior management appointments. The Company does not have a nomination committee as the Board is relatively small and all directors are consulted in reaching a consensual and collective decision over Board appointments. The Board considers that the input from all directors is important given the size of the Company and such input does not disrupt the normal operations of the Board. The need for a nomination committee is however kept under review taking into account changes in the Company's size, complexity and circumstances.

## The Board and its committees

### Board composition and independence

The Board currently comprises the non-executive chairman, the senior non-executive director, the chief executive and the chief financial officer. The Board does not have any non-executive directors considered independent as a result of the participation of all directors in the Group's share option scheme during the year, and specifically in respect of M Royde, as a result of his interest in Kestrel Opportunities and its interest in Gresham as noted on page 13.

The roles of chairman and chief executive are distinct, set out in writing and agreed by the Board. The chairman is responsible for the effectiveness of the Board and ensuring communication with shareholders and the chief executive is accountable for the management of the Group.

Non-executive directors constructively challenge and assist in the development of strategy. They scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The Senior Non-Executive Director, M Royde, is available to shareholders if they have concerns which contact through the normal channels of chairman or chief executive has failed to resolve or for which such contact is inappropriate.

The Company consulted with major shareholders prior to the appointments of M Royde and K Archer and prior to the establishment of the Group's share option scheme and grant of options to non-executive and executive directors. The Board keeps the requirement for non-executive independence under regular review, taking into account changes in circumstances and maintains a regular dialogue with shareholders.

The Company Secretary, R Grubb, is also the Chief Financial Officer. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

### Operation of the Board

The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 26 and a statement on going concern is given on page 10.

The Board normally meets once a month and has a formal schedule of matters specifically reserved to it for decision. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material unusual contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements. Other matters are delegated to the management Board, supported by policies for reporting to the Board. Presentations are made to the main Board on regular occasions by the executive directors and operational management.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with, and for advising the Board, through the chairman, on corporate governance matters. The Company maintains appropriate insurance cover in respect of legal action against the Company's directors, but no cover exists in the event that the director is found to have acted fraudulently or dishonestly.

The non-executive chairman and the non-executive director are able to meet without executives present prior to each Board meeting. The agenda and relevant briefing papers for each Board meeting are distributed by the Company Secretary, usually a week in advance of each Board meeting.

Where directors have concerns which cannot be resolved about the running of the Company or a proposed action, these concerns are recorded in Board minutes. On resignation, a non-executive director provides a written statement to the chairman for circulation to the Board if there are any such concerns.

The following Board committees deal with the specific aspects of the Group's affairs. Terms of reference of each committee, explaining its role and the authority delegated to it by the Board, are available on request from the Company Secretary. The committee chairmen report regularly to the whole Board and are required to confirm that the committees have sufficient resources to undertake their duties.

### Audit committee

The audit committee comprised M Royde (Chairman) and K Archer. The audit committee does not comprise only independent non-executive directors nor include one member with recent and relevant financial experience, as required by provision C3.1 of the Code.

There were two audit committee meetings during the year and both were attended by the lead external audit partner. The role and responsibilities of the audit committee are set out in terms of reference available on request from the Company Secretary and are described in more detail in the Report of the audit committee on page 19.

### Remuneration committee

The remuneration committee comprised M Royde (Chairman) and K Archer. The remuneration committee does not comprise only independent non-executive directors, as required by provision D2.1 of the Code.

Where appropriate, the committee seeks independent advice from remuneration consultants and also consults with the remainder of the Board. The committee is responsible for setting remuneration for all executive directors and the chairman appointed by the Company, including pension rights and provision for compensation payments. The committee also recommends and monitors the level and structure of remuneration for senior management. The remuneration of non-executive directors is a matter for the executive members of the Board, within limits set in the Articles of Association. The remuneration committee consults with the chief executive concerning the remuneration of other executive directors. Further details of the role and responsibilities of the remuneration committee and its activities during the year are given in the report on directors' remuneration on pages 22 to 25.

### Appointment to the Board

Appointments to the Board are made on merit and against objective criteria. Care is taken to ensure that appointees have enough time to devote to the job, especially in the case of chairmanships. The Board keeps under review, and takes appropriate action, to ensure orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Group and on the Board.

The Code provisions require the formation of a nomination committee to lead and oversee the application of Code principles as they relate to Board and senior management appointments. The Company does not have a nomination committee.

The Board considers the other significant commitments of non-executive directors prior to appointment, to ensure that they have sufficient time to meet what is expected of them, and keeps changes to these commitments under review. The terms and conditions of appointment of non-executive directors are available for inspection by any person at the Company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting). M Royde is also a non-executive director of Renovo Group plc, a company listed on the London AIM market.

The Board as a whole keeps under review the need for independent non-executive directors.

## Meetings and attendance

The following table summarises the number of Board and committee meetings held during the year and the attendance record of individual directors.

	Board	Audit Committee <sup>(1)</sup>	Remuneration Committee <sup>(1)</sup>
Number of meetings held	11	2	3
<i>Number of meetings attended:</i>			
CM Errington	11	2	3
M Royde	10	2	3
K Archer	11	2	3
R Grubb	11	2	3

<sup>(1)</sup> Executive directors attend by invitation

## Induction, training and performance evaluation

### Induction and training

New directors receive appropriate induction on their appointment to the Board covering the activities of the Group and its key business and financial risks, the terms of reference of the Board and its committees and the latest financial information about the Group.

The chairman ensures that directors update their skills, knowledge and familiarity with the Group required to fulfil their roles on the Board and on Board committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the Listing Rules, requirements under the Companies Act and other regulatory matters. Directors may consult with the Company Secretary at any time on matters related to their role on the Board. All directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the chairman or the Company Secretary.

### Evaluation of the Board's performance

The Board has undertaken a formal review encompassing the performance of the Board as a whole, its committees and each director. In performing these reviews, criteria that are taken into account include the ability of the director to: take the perspective of creating shareholder value; to contribute to the development of strategy and identification of risks; to provide clarity of direction to management; to be a source of wise counsel; to bring a broad perspective to discussions and an understanding of key issues; to commit the time required to fulfil the role; and to listen to and respect the ideas of fellow directors and management.

The Senior Non-Executive Director is responsible for, and has undertaken, the performance evaluation of the chairman, taking into account the views of the executive directors and the criteria above.

### Retirement and re-election

All directors are subject to election by shareholders after their appointment and to re-election thereafter at intervals of no more than three years.

Non-executive directors are appointed for indefinite terms and are terminable by three months' notice from either the Company or the individual. Non-executive directors who have served more than nine years are subject to annual re-election.

The chairman has formally reviewed the performance of M Royde and satisfied himself that his performance continues to be effective and that he continues to demonstrate commitment to the role. The Board have formally reviewed the performance of K Archer and is satisfied that his performance continues to be effective and that he continues to demonstrate commitment to the role.

C Errington and M Royde are subject to election at the forthcoming AGM.

### Report of the audit committee

The audit committee is responsible for reviewing the Group's internal control and risk management systems, and reviewing and monitoring the effectiveness of internal and external audit. Its role includes monitoring the integrity of the Group's financial statements and other formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them.

The audit committee advises the Board on the appointment, reappointment and removal of external auditors and approves their remuneration and terms of engagement, including developing and implementing a policy on the provision of non-audit services by the external audit firm. It also reviews and monitors the independence and objectivity of the external auditor.

The work of the committee in discharging its responsibilities includes:

- monitoring the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, and reviewing financial reporting judgments contained in them;
- reviewing the Company's internal financial controls and reviewing the Company's internal control and risk management systems;
- reviewing the Company's whistle-blowing arrangements;
- reviewing the need for a separate internal audit function;
- making recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements;
- developing and implementing policy on engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the Board, identifying any matters of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The committee has met with senior management and the external auditors to review financial reporting at the full year, including discussions as to the scope, materiality, timing and findings of the annual audit.

The committee seeks to maintain auditor objectivity and independence by reviewing and controlling the manner in which non-audit services are awarded to the auditor on at least an annual basis. The Company has a rigorous policy designed to ensure that the auditors' independence is not compromised by their undertaking inappropriate non-audit work. All significant non-audit work, and any work of a non-compliance consultancy nature, commissioned from the external auditors requires audit committee approval.

The committee formally reviews the independence of the external auditors on an annual basis and has undertaken its annual review of the nature and amount of non-audit work undertaken by the external auditors and satisfied itself that there is no effect on their independence.

During the year, the committee considered the need for a separate internal audit function and concluded that, based on the size of the Group, a separate internal audit function is not necessary at this stage. The need for an internal audit function is reviewed at least annually.

The committee has reviewed arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and concluded that they remain appropriate.

## Relations with shareholders

### Dialogue with institutional shareholders

The Board as a whole is responsible for ensuring that a dialogue is maintained with shareholders based on the mutual understanding of objectives.

Members of the Board meet with major shareholders on a regular basis, including presentations after the Company's announcement of the year end results and at the half year. Non-executives are offered the opportunity to attend meetings with major shareholders and attend on a regular basis.

The Board is kept informed of the views of shareholders at each Board meeting through a report from the chief executive together with formal feedback on shareholders' views gathered and supplied by the Company's advisors. The views of private and smaller shareholders, typically arising from the AGM or from direct contact with the Company, are also communicated to the Board on a regular basis.

M Royde, the senior non-executive director, and K Archer, the non-executive chairman, are available to shareholders if they have concerns where contact through the normal channels of chief executive officer has failed to resolve or for which such contact is inappropriate.

### Constructive use of the AGM

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

All members of the Board attended the Company's last AGM and the chairman aims to ensure that all members of the Board will be available at the forthcoming AGM.

Proxy votes are counted and, except where a poll is called, the level of proxies lodged on each resolution, and the balance for and against the resolution and the number of abstentions, is reported after each resolution has been dealt with on a show of hands at the AGM.

Details of resolutions to be proposed at the AGM can be found in the Notice of the Meeting. A separate resolution is proposed for each substantially separate issue including a separate resolution relating to the report and accounts.

## Accountability and audit

### Financial reporting

The Board is responsible for presenting a balanced and understandable assessment of the Company's position and prospects, extending to interim reports and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

Management and specialists within the Finance Department are responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reported. All financial information published by the Group is subject to the approval of the Audit Committee.

### Going concern

The directors are required to report that the business is a going concern, with supporting assumptions and qualifications as necessary. The directors have concluded that the business is a going concern as further explained in the Directors' Report on page 10.

### Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. The directors acknowledge their ultimate responsibility for ensuring that the Group has in place a system of controls, financial and otherwise, that is appropriate to the business environment in which it operates and the risks to which it is exposed.

The Board has reviewed the effectiveness of the Group's system of internal controls during the year. This review covered all material controls, including financial, operational and compliance controls and risk management systems.

The Company's system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. Action has been taken by the Board to enhance financial and other controls during the year. In addition, steps are continuing to be taken to further embed internal control and risk management processes into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

An embedded ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year and remains in place up to the date of the approval of the financial statements. The process is regularly reviewed by the Board and accords with the Internal Control Guidance for directors on the Combined Code produced by the Turnbull working party.

The processes used by the Board to review the effectiveness of the system of internal control include:

- regular site visits by the executive directors, with the results reported to board meetings;
- discussions with management on risk areas identified by management and the Board;
- regular operational management group meeting, with results reported to the board
- review and update of the Group's policy and procedures;
- review of external audit plans;
- review of significant issues arising from the external audit; and
- annual review of the control environment and procedures.

### Control environment

The Group operates within a control framework developed and strengthened over a number of years and communicated as appropriate by a series of written procedures. These lay down accounting policies and financial control procedures, in addition to controls of a more operational nature. The key procedures that the directors have established with a view to providing internal control are as follows:

- the establishment of the organisation structure and the delegated responsibilities of operational management;
- the definition of authorisation limits, including matters reserved for the Board;
- the establishment of detailed operational budgets for each financial year;
- maintenance of a risk register which is reviewed and updated at every board meeting;
- review of regular, detailed monthly management reporting provided for every board meeting;
- reporting and monitoring performance against budgets and rolling forecasts;
- the security of physical property and of computer information; and
- detailed financial due-diligence on all acquisitions.

## Information not subject to audit

### Remuneration committee and advisers

The remuneration committee is chaired by M Royde and K Archer is a member.

The committee makes recommendations to the Board, within agreed terms of reference, on an overall remuneration package for executive directors and other senior executives. The chief executive provides advice in relation to the remuneration of other senior executives.

### Remuneration policy

The Group's policy on directors' remuneration for the current and subsequent financial years is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value. The package consists of basic salary, benefits, share options, performance related bonuses and pensions, with a significant proportion based on performance and dependent upon the achievement of demanding targets. Consideration is given to pay and employment policies elsewhere in the Group, especially when determining annual salary increases by reference to prevailing local market pay rates and overall packages offered.

#### *Executive remuneration package:*

The remuneration committee's policy is to align executive directors' remuneration packages to support the Company's business strategy whilst ensuring that rewards are market competitive. The details of individual components of the remuneration package and service contracts are discussed below.

#### *Basic salary and benefits:*

Salary and benefits are reviewed annually. Benefits principally comprise private healthcare and death in service insurance.

#### *Share options:*

Share options are awarded by the remuneration committee. Options may only be granted at an exercise price of not less than 110% of the mid-market price of ordinary shares on the day prior to the date of grant. Further information concerning share options including performance conditions can be found in note 22 to the Group financial statements.

#### *Performance related bonuses:*

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is the profitability of the Group. The annual bonus plan generally allows for incentive payments of up to 100% of basic salary dependent on the achievement of profitability targets set at the beginning of the year; only in truly exceptional circumstances would the payment be higher than this and then only in the presence of a very significant level of Group profitability. No such bonus payments were made to directors for the year ended 31 December 2012 or 2011.

#### *Pensions:*

The Company makes contributions to defined contribution schemes, usually calculated as a percentage of base salary, for which rates are individually set.

#### *Fees:*

The level of non-executive directors' remuneration is determined by the executive directors after considering the fee levels in comparable businesses. A basic fee is set for normal duties and supplementary fees are paid for any additional duties at fixed day rates. Non-executive directors are not eligible for pensions, incentives or any similar payments other than normal out of pocket expenses incurred on behalf of the business. Compensation for loss of office is not payable to non-executive directors.

#### *Service contracts:*

It is the Company's policy to offer directors service contracts terminable with a maximum of 12 months' rolling notice from either side.

None of the non-executive directors have a service contract. Letters of Appointment provide for an indefinite period, terminable by three months' notice from either party.



There are no predetermined special provisions for executive directors with regard to compensation in the event of loss of office. The remuneration committee considers the circumstances of individual cases of early termination and in exceptional circumstances only would recommend compensation payments in excess of the Company's contractual obligations.

## Service contracts

C Errington has a service agreement dated 11 January 2005, which is terminable by 12 months' rolling notice from either side. R Grubb has a service agreement dated 18 May 2011, which is terminable by 6 months' rolling notice from either side.

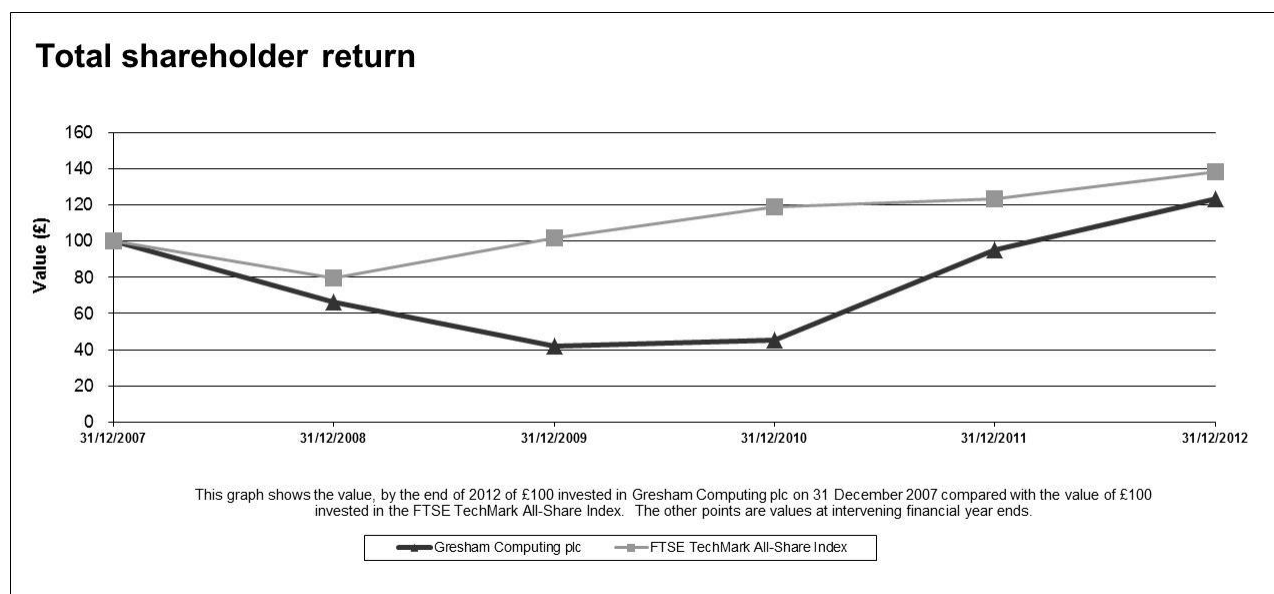
The services of M Royde are provided and invoiced by Kestrel Partners LLP (a company in which he has an ownership interest) under a consultancy agreement dated 19 November 2009 which is terminable by three months' notice from either party.

K Archer has a letter of appointment dated 9 June 2012 which is terminable by three months' notice from either party.

## Performance graph

The graph below shows the total shareholder return for each of the last five financial years in terms of the change in value (with dividends reinvested) of an initial investment of £100 on 31 December 2007 in a holding of the Company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the FTSE TechMark All-Share index.

The FTSE TechMark All-Share was selected as it represents a broad equity market index in which the Company is a constituent member.



## Information subject to audit

## Directors' remuneration

The remuneration of the directors is as follows:

	Basic salary and fees	Benefits in kind	Performance related bonus	Total 2012	Total 2011
	£	£	£	£	£
<i>Executive directors:</i>					
C Errington	150,000	1,691	-	151,691	151,816
R Grubb <sup>1</sup>	90,000	1,129	-	91,129	68,368
<i>Non-executive directors:</i>					
M Royde	30,000	-	-	30,000	30,000
Ken Archer	80,000	-	-	80,000	80,000
	350,000	2,820	-	352,820	330,184

<sup>1</sup> from appointment 29 March 2011

The remuneration package of each executive director includes non-cash benefits comprising the provision of private healthcare and death in service insurance.

## Pension entitlements

Contributions paid by the Company in respect of the directors were as follows:

	2012 £	2011 £
C Errington	7,500	7,500
R Grubb <sup>1</sup>	4,500	3,375
	12,000	10,875

<sup>1</sup> from appointment 29 March 2011

## DIRECTORS' REMUNERATION REPORT

### Interests in options

The Group has two share option schemes: the Executive Scheme 1998, from which no further grants will be made, and the Option Schemes 2010 under which executive directors and other senior executives are able to subscribe for ordinary shares in the Company.

Further details concerning the share option schemes in place, including vesting conditions, can be found in note 22 to the Group financial statements.

The interests of the directors in share options were as follows:

	Options at 1 January 2012	Granted/ (lapsed)	Cancelled	Exercised	Options at 31 December 2012	Date of grant	Exercise price	Date first exercisable	Expiry date
C Errington <sup>S*</sup>	1,750,000	-	-	-	1,750,000	31.12.10	28p	31.12.13	31.12.20
R Grubb <sup>S*</sup>	300,000	-	-	-	300,000	31.12.10	28p	31.12.13	31.12.20
M Royde <sup>S, K</sup>	500,000	-	-	-	500,000	31.12.10	28p	31.12.13	31.12.20
K Archer <sup>S*</sup>	700,000	-	-	-	700,000	31.12.10	28p	31.12.13	31.12.20

<sup>S</sup> awards granted under the Share Schemes 2010

<sup>K</sup> awards granted to Kestrel Partners LLP, of which M Royde is a Partner

\* options over which the executive has agreed to pay any employer's national insurance arising from the exercise of the options.

The closing market price of the Company's shares on 31 December 2012 was 69.00 pence. During the year, the closing price per ordinary share ranged from 51.75 pence to 72.00 pence.

No gains were made on the exercise of director share options in this or the prior year.

The interests of the directors to subscribe for or acquire ordinary shares have not changed since the year end.

On behalf of the Board

M Royde  
Chairman of the Remuneration Committee  
25 March 2013

## Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare a Director's Report and Director's Remuneration Report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent Company, together with a description of the principal risks and uncertainties that they face.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRESHAM COMPUTING PLC

We have audited the financial statements of Gresham Computing plc for the year ended 31 December 2012 which comprise consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flow, the Company balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year ended 31 December 2012 for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 10, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Mr Paul Anthony (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
Southampton  
United Kingdom  
Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## CONSOLIDATED INCOME STATEMENT

		2012 £'000	2011 £'000
Revenue	3,4	12,106	11,593
Cost of goods sold		(2,703)	(2,189)
Gross profit		9,403	9,404
Administrative expenses		(7,877)	(8,077)
Trading profit	5	1,526	1,327
Finance revenue	3,8	36	46
Finance costs	8	(5)	(16)
Profit before taxation		1,557	1,357
Taxation	9	408	390
Attributable to owners of the parent	23	1,965	1,747
Earnings per share (total and continuing)			
Basic earnings per share - pence	10	3.38	3.01
Diluted earnings per share - pence	10	3.05	2.74

All activities during the year were continuing.

	31 December 2012 £'000	31 December 2011 £'000
Attributable profit for the year	1,965	1,747
Other comprehensive income		
Exchange differences on translation of foreign operations	(60)	14
	(60)	14
Total comprehensive income for the year	1,905	1,761

All activities during the year were continuing.

The tax effect of exchange differences recorded within the Consolidated Statement of Comprehensive Income is a credit of £15,000 (2011: charge of £4,000).



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2012 £'000	31 December 2011 £'000
<b>Assets</b>			
Non-current assets			
Property, plant and equipment	12	327	310
Intangible assets	13	4,138	2,914
Deferred tax asset	9	473	400
Trade and other receivables	16	122	-
		5,060	3,624
Current assets			
Trade and other receivables	16	3,110	3,131
Income tax receivable	16	348	290
Cash and cash equivalents	17	2,891	3,602
		6,349	7,023
<b>Total Assets</b>		<b>11,409</b>	<b>10,647</b>
<b>Equity and Liabilities</b>			
Equity attributable to owners of the parent			
Called up equity share capital	21	2,907	2,907
Share premium account	23	13,124	13,124
Other reserves	23	1,039	1,039
Foreign currency translation reserve	23	300	360
Retained earnings	23	(11,226)	(13,393)
<b>Total Equity attributable to owners of the parent</b>	<b>23</b>	<b>6,144</b>	<b>4,037</b>
Non-current liabilities			
Deferred income	18	548	929
Provisions	18	53	448
		601	1,377
Current liabilities			
Trade and other payables	18	4,538	4,962
Financial liabilities	18	-	18
Income tax payable	18	-	-
Provisions	18	126	253
		4,664	5,233
<b>Total liabilities</b>		<b>5,265</b>	<b>6,610</b>
<b>Total Equity and Liabilities</b>		<b>11,409</b>	<b>10,647</b>

The financial statements were approved by the Board of Directors and authorised for issue on 25 March 2013.

On behalf of the Board

C Errington  
25 March 2013

R Grubb  
25 March 2013

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation £'000	Retained earnings £'000	Total £'000
At 1 January 2011	2,907	13,124	1,039	346	(15,440)	1,976
Attributable profit for the period	-	-	-	-	1,747	1,747
Other comprehensive income	-	-	-	14	-	14
Total comprehensive income/(expense)	-	-	-	14	1,747	1,761
Share based payment expense	-	-	-	-	300	300
At 31 December 2011	2,907	13,124	1,039	360	(13,393)	4,037
Attributable profit for the period	-	-	-	-	1,965	1,965
Other comprehensive income	-	-	-	(60)	-	(60)
Total comprehensive income	-	-	-	(60)	1,965	1,905
Share based payment expense	-	-	-	-	202	202
At 31 December 2012	2,907	13,124	1,039	300	(11,226)	6,144

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	31 December 2012 £'000	31 December 2011 £'000
Cash flows from operating activities			
Profit before taxation		1,557	1,357
Depreciation, amortisation and impairment	5	422	324
Share based payment expense	7,22	202	300
Increase in trade and other receivables		(101)	(132)
Decrease in trade and other payables		(805)	(392)
Movement in provisions	18	(521)	215
Revaluation of foreign exchange instrument		(18)	18
Net finance income	8	(36)	(39)
Cash inflow from operations		700	1,651
Net income taxes received		277	114
Net cash inflow from operating activities		977	1,765
Cash flows from investing activities			
Interest received	8	36	46
Purchase of property, plant and equipment	12	(201)	(154)
Payments to acquire intangible fixed assets	13	(1,497)	(1,213)
Net cash used in investing activities		(1,662)	(1,321)
Cash flows from financing activities			
Interest paid	8	-	(7)
Net cash generated from / (used in) financing activities		-	(7)
Net (decrease) / increase in cash and cash equivalents		(685)	437
Cash and cash equivalents at beginning of year		3,602	3,146
Exchange adjustments		(26)	19
Cash and cash equivalents at end of year		2,891	3,602

## 1. Authorisation of financial statements and statement of compliance with IFRSs

Gresham Computing plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded as a premium listing on the London Stock Exchange.

The financial statements of Gresham Computing plc and its subsidiaries (the "Group") for the year ended 31 December 2012 were authorised for issue by the Board of directors on 25 March 2013 and the statement of financial position was signed on the Board's behalf by C Errington and R Grubb.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2012.

The principal accounting policies adopted by the Group are set out below.

## 2. Accounting policies

### Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2012 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2012.

The Group's financial statements have been prepared on a historical cost basis, except for property provisions and derivative financial instruments which have been measured at fair value.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. For the year ended 31 December 2012, the Company recorded a loss of £320,000 (2011: profit of £34,000).

The Group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds ("£000") except when otherwise indicated.

### Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

#### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position 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.

#### *Revenue and profit recognition*

Fixed price contracts are accounted for in accordance with IAS 11 'Construction Contracts'. Revenue and profits are recognised on a percentage-of-completion basis, as costs incurred relate to total costs for the contract, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably, requires management to exercise judgement, whilst calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

Revenue recognised in the period is disclosed in note 3, with further analysis provided in note 4.

### *Impairment of goodwill and development costs*

The determination of whether or not intangible assets have been impaired may require an estimate to be made of the value in use of the cash-generating unit to which the intangible asset has been allocated. The value in use calculation includes estimates about future financial performance of the cash-generating units, including management's estimates of long-term operating margins and long-term growth rates.

The carrying amount of these intangibles and the key assumptions used in the calculation of value in use of the cash-generating units to which the intangibles are allocated are disclosed in note 14.

### *Useful economic life of capitalised development costs*

The assessment of the useful economic life of capitalised development costs is estimated by management based on past experience and reviews of competitor products available in the market.

The useful economic life of capitalised development cost is disclosed in note 13.

### *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

The provisions recognised are disclosed in note 18.

### *Share-based payments*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management is also required to use judgement in determining the most appropriate inputs to the valuation model including expected life of the option, volatility and dividend yield.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting. This includes the review of the applicable staff attrition rate which can have a material impact on the cumulative expense calculated.

The assumptions and models used are disclosed in note 22.

### **Basis of consolidation**

The Group financial statements consolidate the financial statements of Gresham Computing plc and the entities it controls (its subsidiaries) drawn up to 31 December each year.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

### **Foreign currency translation**

Transactions in foreign currencies are initially recorded in the functional currency by applying an approximation of the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the statement of financial position date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

On transition to IFRS from 1 January 2004, the exemption available under IFRS 1 was taken to start the currency translation reserve at nil.

### Goodwill

Business combinations on or after 1 January 2004 have been accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the statement of financial position as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 31 December 2003 is recorded at its carrying amount under UK GAAP and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at geographical segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Purchased intangibles with finite lives, including purchased patents, know-how, trademarks, licences and distribution rights are capitalised at cost and amortised on a straight line basis over their estimated useful lives. The estimated useful life of these intangible assets ranges between 2 and 10 years depending on their nature. Amortisation charges in respect of intangible assets are included in administrative expenses.

### *Research and development costs*

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Capitalised product development expenditure is stated at cost less accumulated amortisation and impairment losses. Product development costs that have been capitalised are amortised from the time the product or related enhancement become available for use as part of a version release issued to customers, on a straight-line basis over 6 to 20 years depending on the useful economic life of the asset assessed. During the period of development, the asset is tested for impairment annually.

### **Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than freehold land, on a straight-line basis over its expected useful life as follows:

- Fixtures and fittings over the term of the underlying property lease.
- Plant and equipment over lives ranging between 1 and 10 years to write down the assets to their residual value based on current prices for an asset of the age the plant and equipment is expected to be at the end of its useful life.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

### **Leases**

#### *Group as a lessee*

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

#### *Group as a lessor*

Where the Group has spare capacity in offices held under operating leases and where the head lease permits, the Group sub leases space acting in a lessor capacity. The rental income is recognised on a straight line basis over the lease term and shown separately from the Group's full obligation under the head operating lease.

### **Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is

written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. Impairment charges on goodwill are considered permanent and cannot be reversed. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

### Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss; loans and receivables; held-to maturity investments; or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are initially valued at fair value and carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are



designated as effective hedging instruments or as financial guarantee contracts. Assets are carried in the statement of financial position at fair value with gains or losses recognised in the income statement.

### *Available-for-sale financial assets*

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale by the directors, taking into account the stage of any marketing or sales activity to promote an end sale. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised within the Statement of Comprehensive Income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the Income Statement.

### **Impairment of financial assets**

The Group assesses at each statement of financial position date whether a financial asset or Group of financial assets is impaired.

### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss is recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### **Trade and other receivables**

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant finance difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

### **Amounts recoverable on contracts**

Amounts recoverable on contracts represent revenue recognised to date less amounts invoiced to clients. Full provision is made for known or anticipated project losses.

### **Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### **Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited to other comprehensive income or directly to equity if it relates to items that are credited or charged to other comprehensive income or directly to equity. Otherwise income tax is recognised in the income statement.

### Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

### Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Fair value of derivative financial instruments is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

### Pensions

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

### Revenue recognition

Revenue, comprising sales of products and services to third parties, is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes. The following criteria must also be met before revenue is recognised:

#### *Software licenses*

Revenue on software licences is recognised when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, such as a signed contract or purchase order;
- Delivery has occurred and no future elements to be delivered are essential to the functionality of the delivered element;

- The fee is fixed or determinable; and
- Collectibility is probable.

### *Rendering of services*

Revenue and profits from the provision of professional services, such as implementation, development, training and consultancy, are recognised on a percentage-of-completion basis, as costs incurred relate to total costs for the contract, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably, requires management to exercise judgement, whilst calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

### *Subscriptions and maintenance*

Revenue from subscription and maintenance services is recognised rateably over the period of the contract.

### *Solution sales*

Contracts for the delivery of solutions with multiple elements, typically involving software licences, rendering of services, subscriptions and maintenance, hardware are unbundled where possible and revenue is recognised based on the accounting policy applicable to each constituent part.

Where objective unbundling of a solution is not possible, revenue is recognised as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract. Profit is recognised on such contracts, if the final outcome can be assessed with reasonable certainty, by including in the income statement revenue and related costs as contract activity progresses.

### *Interest income*

Interest income is recognised as finance revenue as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

### *Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

## Share-based payments

### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

Fair value of awards with a financial result based performance target is determined by management using the Black Scholes pricing model.

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

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous statement of financial position date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental

fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The share-based payment expense is recognised as a staff cost and the associated credit entry is made against equity.

The Group has taken advantage of the exemption in IFRS 1 in respect of equity-settled awards so as to apply IFRS 2 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

### Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year.

The following new standards have been adopted and are effective for the current year.

- IFRS 1 (Revised) – Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'
- IFRS 1 (Revised) – Additional exemption for entities ceasing to suffer from severe hyperinflation
- IFRS 7 (Revised) - Amendments enhancing disclosures about transfers of financial assets
- IAS 12 – Limited scope amendment (recovery of underlying assets)

The adoption of these pronouncements has not impacted the classification or measurement of the Group's assets and liabilities, nor has it resulted in any additional disclosure.

### *New standards and interpretations not applied*

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

Standard or interpretation	Title	Effective from
IFRS 1	Amendments for government loan with a below-market rate of interest when transitioning to IFRSs	1 January 2013
IFRS 1	Amendments resulting from Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs)	1 January 2013
IFRS 7	Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	1 January 2013
IFRS 7	Amendments requiring disclosures about the initial application of IFRS 9	1 January 2015
IFRS 9	Classification and measurement of financial assets	1 January 2013
IFRS 9	Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 10	Amendments to transitional guidance	1 January 2013
IFRS 10	Amendments for investment entities	1 January 2014
IFRS 11	Joint Arrangements	1 January 2013

Standard or interpretation	Title	Effective from
IFRS 11	Amendments to transitional guidance	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 12	Amendments to transitional guidance	1 January 2013
IFRS 12	Amendments for investment entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2013
IAS 1	Amendments to revise the way other comprehensive income is presented	1 July 2012
IAS 1	Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information)	1 January 2013
IAS 16	Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment)	1 January 2013
IAS 19	Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	1 January 2013
IAS 27	Reissued as IAS 27 Separate Financial Statements (as amended in 2011)	1 January 2013
IAS 27	Amendments for investment entities	1 January 2014
IAS 28	Investments in Associates	1 January 2013
IAS 32	Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IAS 32	Amendments resulting from Annual Improvements 2009-2011 Cycle (tax effect of equity distributions)	1 January 2013
IAS 34	Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets)	1 January 2013

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

The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

### 3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2012 £'000	2011 £'000
Rendering of services	12,058	11,545
Rental income	48	48
	12,106	11,593
Finance revenue	36	46
	12,142	11,639

Included within Rendering of Services is revenue recognised under contract accounting in respect of bundled software solutions of £418,000 (2011: £49,000).

### 4. Segment information

The segmental disclosures reflect the analysis presented on a monthly basis to the chief operating decision maker of the business, the Chief Executive Officer and the Board of Directors.

In addition split of revenues and non-current assets by UK and overseas have been included as they are specifically required by IFRS 8 Operating Segments.

During the year-ended 31 December 2012 the Group re-evaluated the internal presentation of its operating segments to more appropriately aggregate the differing sets of risks the Group's businesses face. This has increased focus on product groups across businesses rather than the geographic location of the businesses themselves, which is consistent with internal reporting.

The change has had the following impact on classification of operating segments:

<i>Previous classification</i>		<i>Current classification</i>
Software		Software
North America RTFS		North America RTFS
Asia Pacific RTFS	}	APAC & EMEA RTFS
EMEA RTFS		
Adjustments, central & eliminations		Adjustments, central & eliminations

"RTFS" refers to Real Time Financial Reporting.

The Group's Development function, and associated capitalisation of development costs, both previously classified within Adjustments, central & eliminations are now included within RTFS.

Disclosures in respect of the year ended 31 December 2011 have been updated accordingly.

For management purposes, the Group is organised into the following reportable segments as follows:

- *Software* - supply of solutions predominantly to the enterprise level storage market
- *North American RTFS* - supply of solutions predominantly to the credit union market in the Caribbean
- *APAC & EMEA RTFS* - supply of solutions predominantly to the finance and banking market

## NOTES TO THE FINANCIAL STATEMENTS

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.

### Year Ended 31 December 2012

	<i>Software</i> £'000	<i>North America RTFS</i> £'000	<i>APAC &amp; EMEA RTFS</i> £'000	<i>Adjustments, central &amp; eliminations</i> £'000	<i>Consolidated</i> £'000
<i>Revenue</i>					
External customer	3,210	1,773	7,123	-	12,106
Inter-segment	-	-	251	(251)	-
Total revenue	3,210	1,773	7,374	(251)	12,106
Interest revenue	-	-	-	36	36
Interest expense	-	-	-	(5)	(5)
Depreciation	(5)	(15)	(140)	-	(160)
Amortisation	(37)	(31)	(174)	-	(242)
Profit / (loss) before taxation	2,196	(29)	(206)	(404)	1,557
Taxation	-	-	-	408	408
Profit / (loss) after taxation	2,196	(29)	(206)	4	1,965
Segment assets	338	777	6,038	4,256	11,409
Segment liabilities	(717)	(452)	(3,585)	(511)	(5,265)

## Year Ended 31 December 2011

	Software £'000	North America RTFS £'000	APAC & EMEA RTFS £'000	Adjustments, central & eliminations £'000	Consolidated £'000
<i>Revenue</i>					
External customer	3,341	1,436	6,241	92	11,110
Inter-segment	116	-	724	(357)	483
Total revenue	3,457	1,436	6,965	(265)	11,593
Interest revenue	-	-	-	46	46
Interest expense	-	-	-	(7)	(7)
Depreciation	(5)	(22)	(110)	(20)	(157)
Amortisation	(38)	(29)	(100)	-	(167)
Profit / (loss) before taxation	2,424	(56)	(362)	(649)	1,357
Taxation	-	-	-	390	390
Profit / (loss) after taxation	2,424	(56)	(362)	(259)	1,747
Segment assets	551	677	4,582	4,837	10,647
Segment liabilities	(892)	(599)	(4,311)	(808)	(6,610)

The Group has two customer relationship with banking customers within the APAC & EMEA RTFS segment, both of which are considered by the directors to be individually significant relationships; revenue from these relationships both individually exceed 10% of the Group's' revenue.

Segment profit / (loss) represent segment profit after tax, prior to adjustments for reallocation of share option charges.

*Adjustments, central & eliminations*

Adjustments, central & eliminations to segment profit/(loss) represent IT staff placement profit of £nil (2011: £23,000), central management functions of £291,000 (2011: £361,000), including the Board of Directors, Group finance, HR, IT and marketing in addition to adjustments made to reflect share option charge of £202,000 (2011: £300,000), elimination of exchange credit arising on intercompany balances of £89,000 (2011: debit of £11,000) and taxation credit of £408,000 (2011: £390,000).

Adjustments, central & eliminations to segment assets represent cash of £2,891,000 (2011: £3,602,000), taxation of £821,000 (2011: £690,000) and other assets of £546,000 (2011: £545,000).



## Geographic information

	2012 £'000	2011 £'000
Revenues from external customers (by destination)		
EMEA	5,047	6,038
North America	2,952	2,517
Asia Pacific	4,107	3,038
	12,106	11,593
	£'000	£'000
Non-current assets		
UK	4,215	2,727
North America	25	36
Asia Pacific	698	861
	4,938	3,624

Non-current assets consist of tangible and intangible fixed assets.

EMEA includes revenue from external customers located primarily in the UK, Germany, Switzerland & Austria.

Asia Pacific includes revenue from external customers located primarily in Australia and Malaysia.

## 5. Group trading profit

This is stated after charging / (crediting):

	2012 £'000	2011 £'000
Research and development costs written off	54	168
Amortisation of deferred development costs recognised in administrative expenses	140	127
Total research and development costs	194	295
Depreciation of property, plant and equipment	180	157
Amortisation of intangible assets (excluding development costs)	102	40
Total depreciation and amortisation expense	282	197
Net foreign currency differences - (losses) / gains	(24)	(14)
Revaluation of derivative financial instruments	-	(18)
Operating lease payments		
Minimum lease payments	425	430
Sublease income	(56)	(56)
	369	374
Increase in provision for impairment of trade receivables recognised in administrative expenses	-	4

## 6. Auditors' remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group.

	2012 £'000	2011 £'000
Audit fees		
Audit of the group financial statements	16	16
Other fees to auditors - auditing the accounts of subsidiaries	32	32
	48	48
Non-audit fees		
Corporate taxation services	11	30
Other	9	2
	20	32

## 7. Staff costs and directors' emoluments

### (a) Staff and director costs

31 December 2012	<i>Income Statement</i>	<i>Development Capitalised</i>	<i>Total</i>
	£'000	£'000	£'000
Wages and salaries	4,798	1,116	5,914
Social security costs	362	125	487
Other pension costs	189	37	226
	5,349	1,278	6,627

31 December 2011	<i>Income Statement</i>	<i>Development Capitalised</i>	<i>Total</i>
	£'000	£'000	£'000
Wages and salaries	4,803	800	5,603
Social security costs	352	94	446
Other pension costs	176	24	200
	5,331	918	6,249

Included in *Wages and salaries* is a total expense of share-based payments of £202,000 (2011: £300,000) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The average monthly number of employees during the year was made up as follows:

	2012	2011
Management	7	7
Sales & Administration	21	19
Technical	69	60
	97	86

### (b) Directors' emoluments

	£'000	£'000
Directors' emoluments		
Remuneration	352	330
Social security costs	41	38
Pension	12	11
Share based payments	103	176
	508	555
Number of directors accruing benefits under defined contribution schemes	2	2

## 8. Finance costs / revenue

	2012 £'000	2011 £'000
Finance revenue		
Bank interest receivable	36	46
Total finance revenue	36	46
Finance costs		
Other bank charges	-	7
Finance charge on provisions	5	9
Total finance costs	5	16

## 9. Taxation

## (a) Tax on loss on ordinary activities

*Tax credited in the income statement*

	2012 £'000	2011 £'000
Current income tax		
UK Corporation tax credit	(335)	(243)
Overseas withholding tax	-	70
	(335)	(173)
Amounts over provided in previous years - UK	-	(29)
Amounts under provided in previous years - Overseas	-	12
Total current income tax	(335)	(190)
Deferred income tax		
Recognition of deferred tax asset	(112)	(228)
Tax rate change adjustments	39	28
	(73)	(200)
Total credit in the income statement	(408)	(390)

## (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 24.5 % (2011 – 26.5%). The differences are reconciled below:

## NOTES TO THE FINANCIAL STATEMENTS

	2012 £'000	2011 £'000
Profit before taxation	1,557	1,357
Accounting profit / (loss) multiplied by the UK standard rate of corporation tax of 24.5% / 26.5%	381	360
R&D tax credit - current year	(337)	(243)
R&D tax credit - prior year	-	(29)
Losses surrendered for R&D tax credit - current year	731	502
R&D enhanced relief	(399)	(243)
Expenses not deductible for tax purposes	6	9
Movement on unrecognised temporary differences	(352)	(270)
Movement on unprovided fixed asset temporary differences	60	(30)
Temporary difference on share based payments	50	-
Overseas tax - prior year	-	12
Overseas withholding tax	-	70
Tax rate change adjustments	39	28
Movement in losses carried forward recognised	(112)	(228)
Movement in losses carried forward not recognised	(475)	(328)
Total tax credit reported in the income statement	(408)	(390)

### (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.

The tax effect of exchange differences recorded within the Consolidated Statement of Comprehensive Income is a credit of £15,000 (2011: charge of £4,000).

### (d) Temporary differences associated with Group investments

At 31 December 2012, there was no recognised deferred tax liability (2011: 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 (2011: £nil).

### (e) Deferred tax

#### *Recognised deferred tax*

	2012 £'000	2011 £'000
1 January	400	200
Recognised in the period	112	228
Impact of change in tax rate	(39)	(28)
31 December	473	400

Deferred tax of £112,000 has been recognised during the year in respect of our profitable Australian operations for which there are unutilised losses available to relieve profits. During the prior year £228,000 was recognised in respect of our profitable EMEA RTFS and Software operations for which there are unutilised losses available to relieve profits

*Unrecognised potential deferred tax assets*

The deferred tax not recognised in the Group statement of financial position is as follows:

	2012 £'000	2011 £'000
Depreciation in advance of capital allowances	80	29
Share-based payments temporary differences	314	100
Other temporary differences	22	384
Tax losses	2,332	3,042
Unrecognised deferred tax asset	2,748	3,555
Gross temporary differences unrecognised	1,808	2,048
Gross tax losses unrecognised	10,141	12,166
Gross deferred tax asset unrecognised	11,949	14,214

*Future tax rates*

The following details the intended UK Standard rate of Corporation taxation as announced by the UK government:

- April 2013 – 23%
- April 2014 – 21%

The proposed April 2013 rate has been substantively enacted and therefore the Group's recognised and unrecognised deferred tax assets have been shown at 23% (2011: 25%) of the gross value.

## 10. Earnings per ordinary share

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

Diluted earnings per share amounts are calculated by dividing the net profit or loss attributable to owners 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 and share data used in the basic and diluted earnings per share computations:

	2012 £'000	2011 £'000
Earnings attributable to owners of the parent	1,965	1,747
Basic weighted average number of shares	58,135,978	58,135,978
Dilutive potential ordinary shares:		
Employee share options - weighted (note 22)	6,386,849	5,522,167
Diluted weighted average number of shares	64,522,827	63,658,145
Basic earnings per share - pence	3.38	3.01
Diluted earnings per share - pence	3.05	2.74

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of this Annual Financial Report.

## 11. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2011: None).

## 12. Property, plant and equipment

31 December 2011

	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
<i>Cost:</i>			
At 1 January 2011	483	1,719	2,202
Additions	43	111	154
Disposals	(106)	(242)	(348)
Exchange adjustment	-	2	2
At 31 December 2011	420	1,590	2,010
<i>Depreciation and impairment:</i>			
At 1 January 2011	(280)	(1,597)	(1,877)
Charge for year	(77)	(80)	(157)
Disposals	106	242	348
Exchange adjustment	(3)	(11)	(14)
At 31 December 2011	(254)	(1,446)	(1,700)
<i>Net carrying amount:</i>			
At 31 December 2011	166	144	310
At 1 January 2011	203	122	325

## 31 December 2012

	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
<i>Cost:</i>			
At 1 January 2012	420	1,590	2,010
Additions	43	158	201
Disposals	(65)	(674)	(739)
Exchange adjustment	(4)	(34)	(38)
At 31 December 2012	394	1,040	1,434
<i>Depreciation and impairment:</i>			
At 1 January 2012	(254)	(1,446)	(1,700)
Charge for year	(84)	(96)	(180)
Disposals	65	674	739
Exchange adjustment	2	32	34
At 31 December 2012	(271)	(836)	(1,107)
<i>Net carrying amount:</i>			
At 31 December 2012	123	204	327
At 1 January 2012	166	144	310

The disposals during 2012 and 2011 represent the writing off of fully written-down assets.

## 13. Intangible assets

## 31 December 2011

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
<i>Cost:</i>				
At 1 January 2011	5,246	948	1,088	7,282
Additions	1,114	99	-	1,213
Exchange adjustment	2	-	5	7
At 31 December 2011	6,362	1,047	1,093	8,502
<i>Amortisation and impairment:</i>				
At 1 January 2011	(4,281)	(889)	(250)	(5,420)
Charge for year	(127)	(40)	-	(167)
Exchange adjustment	(1)	-	-	(1)
	(4,409)	(929)	(250)	(5,588)
<i>Net carrying amount:</i>				
At 31 December 2011	1,953	118	843	2,914
At 1 January 2011	965	59	838	1,862



31 December 2012

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost:				
At 1 January 2012	6,362	1,047	1,093	8,502
Additions	1,494	3	-	1,497
Exchange adjustment	(10)	-	(29)	(39)
At 31 December 2012	7,846	1,050	1,064	9,960
Amortisation and impairment:				
At 1 January 2012	(4,409)	(929)	(250)	(5,588)
Charge for year	(140)	(102)	-	(242)
Exchange adjustment	8	-	-	8
	(4,541)	(1,031)	(250)	(5,822)
Net carrying amount:				
At 31 December 2012	3,305	19	814	4,138
At 1 January 2012	1,953	118	843	2,914

*Development costs*

Development costs are internally generated and are capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised on a straight line basis over their useful lives. These costs are amortised over their useful economic lives of 6 to 20 years (2011: 2 to 10 years). These assets are tested for impairment where an indicator of impairment arises and annually prior to them being made available for use. Development costs have a remaining life of between 1 and 20 years.

*Patents and licences*

Patents and licences are the third party costs incurred in seeking and obtaining protection for certain of the Group's products and services. These intangible assets have been assessed as having a finite life and are being amortised evenly over their useful economic life, to a maximum of 10 years. Patents have a remaining life of 6 years and licences have no life remaining (and are fully written down).

*Goodwill*

Goodwill arose on the acquisition of our Asia Pacific real-time financial solutions business. It is assessed as having an indefinite life and is assessed for impairment at least annually.

## 14. Impairment of goodwill and intangibles

### Goodwill

Goodwill acquired through business combinations has been allocated to one individual cash-generating unit ("CGU"), the lowest level at which goodwill is monitored for internal management purposes, for impairment testing.

*Carrying amount of goodwill*

	2012 £'000	2011 £'000
Asia Pacific & EMEA real-time financial solutions CGU	814	843

**Development costs (finite life)**

Development costs are reviewed for impairment on an annual basis prior to being made available for use or sooner where an indicator of impairment exists. The following table summarises the net book value of development costs:

	2012 £'000	2011 £'000
Asia Pacific and EMEA real time financial solutions	3,269	1,878
Software	36	75
Net book value	3,305	1,953

Within the Asia Pacific and EMEA real-time financial solutions CGU the Group's CTC product, become available for use during the year. Enhancements of the product in progress at 31 December 2012 and not yet available for use totalled £172,000 (2011: £1,271,000).

*Asia Pacific & EMEA real-time financial solutions cash-generating unit*

The recoverable amount of this CGU has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by the Board for 2013 which are extrapolated for five years, and extended beyond 5 years which the Board consider appropriate given the long-term opportunities that exists in the Asia-Pacific and EMEA regions. The discount rate applied to cash flow projections is 15% (2011: 15%) and cash flows beyond the 5 year period are extrapolated using a 2.5% growth rate (2011: 3.3%) that is a prudent approximation to the long term average growth rate for the region in which the CGU operates.

*Key assumptions used in the value in use calculations*

Key assumptions are made by management based on past experience taking into account external sources of information around gross margins, growth rates and discount rates for similar businesses.

The calculation of value in use is most sensitive to assumptions around:

- Operating cashflows, based on financial budgets for 2013 approved by the Board;
- Growth rates, based on internally estimated growth rates for the market and the business offerings; and
- Discount rate, based on the pre tax weighted average cost of capital of the Group.

*Sensitivity to changes in assumptions*

A change in our key assumption in respect to operating cashflows could cause the carrying value of the goodwill or development costs to exceed the recoverable amount, resulting in an impairment charge.

We remain confident the assumptions in respect of operating cashflow remain appropriate. Where the operating cashflows incorporate products or solutions that will be sold in an existing known market past experience is used as a guide to the level of sales achievable, growth rates and associated margins. Where the operating cashflows incorporate relate to products or solutions that will be sold into a new or emerging market past experience with similar products or solutions is combined with relevant information from external market sources, such as competitor pricing and discussions with potential customers, in arriving at the level of sales achievable, growth rates and associated margins.

## 15. Investments

### Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of subsidiary company</i>	<i>Country of incorporation</i>	<i>Holding (shares)</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
Gresham Computer Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Financial Systems Limited	England	Ordinary	100%	Real time financial solutions
Gresham Enterprise Storage Inc <sup>(4)</sup>	USA	Ordinary	100%	Software
Gresham Computing Inc <sup>(4)</sup>	Canada	Ordinary	100%	Real time financial solutions
Gresham Computing Pty Limited <sup>(4)</sup>	Australia	Ordinary	100%	Real time financial solutions
Gresham Computing Sdn Bhd <sup>(1)</sup>	Malaysia	Ordinary	100%	Real time financial solutions
Gresham Computing Pte. Limited <sup>(2)</sup>	Singapore	Ordinary	100%	Real time financial solutions
Gresham Consultancy Services Limited <sup>(3)</sup>	England	Ordinary	100%	Real time financial solutions
Casablanca Software Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Clareti Systems Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Circa Selection Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Gresham Software Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Gresham Telecomputing Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
ITEC Computer Brokering Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Gresham Computer Personnel Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Circa Business Systems Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Cheerkeep Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Circa Business Systems Inc <sup>(4)</sup>	Canada	Ordinary	100%	Dormant
Gresham Computing Inc <sup>(4)</sup>	USA	Ordinary	100%	Dormant

<sup>(1)</sup> held by a subsidiary undertaking

<sup>(2)</sup> incorporated on 8 February 2013

<sup>(3)</sup> subsidiary exempt from UK audit under s480 of the Companies Act 2006

<sup>(4)</sup> subsidiary has no requirement for a local statutory audit

On 8 March 2013 the Group disposed of its wholly owned Canadian subsidiary Gresham Computing Inc. The details of the disposal are included within note 24.

## 16. Trade and other receivables

Trade receivables	1,945	2,028
Provision for impairment	-	-
Trade receivables - net	1,945	2,028
Prepayments and accrued income	1,048	1,103
Amounts recoverable on contracts	117	-
	3,110	3,131
Non-current amounts recoverable on contracts	122	-
	2012	2011
	£'000	£'000
Income tax	348	290

The following table provides disclosure of contracts in progress at the statement of financial position date:

	2012	2011
	£'000	£'000
Contracts in progress at the Statement of Financial Position date		
Contract costs incurred plus recognised profits less recognised losses to date	400	-
Less: progress billings	(161)	-
	239	-
Recognised as:		
Amounts recoverable on contracts	239	-

Trade receivables are denominated in the following currencies:

	2012	2011
	£'000	£'000
Sterling	422	447
Euro	65	76
US Dollar	189	465
Canadian Dollar	200	9
Australian Dollar	946	862
Malaysian Ringgit	123	169
	1,945	2,028

The Group held trade receivables with a value of £879,000 in respect of an Asia Pacific customer at 31 December 2012 (2012: £788,000) which were settled during January and February 2013. Otherwise, there is no significant concentration of trade receivables around major customers in either year. Trade receivables are non-interest bearing and are generally on 30 – 60 days' terms and are shown net of a provision for impairment.

The nominal value of trade receivables that were impaired and fully provided for together with the movements in the provision for impairment of receivables were as follows:

	2012 £'000	2011 £'000
At 1 January	-	4
Charge for the year	-	-
Amounts written off	-	(4)
Unused amounts reversed	-	-
Disposal of subsidiary undertaking	-	-
At 31 December	-	-

At 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £'000	Neither past due nor impaired £'000	< 30 days £'000	Past due but not impaired			
				30 - 60 days £'000	60 - 90 days £'000	90 - 120 days £'000	>120 days £'000
2012	1,945	948	832	4	136	18	7
2011	2,028	824	956	84	83	71	10

The Group's customers primarily comprise national and international banks, government bodies and substantial private and public companies. As a result, the credit quality of trade receivables that are neither past due nor impaired has been assessed by the directors to be relatively high, taking account of a low historic experience of bad debts and relatively good ageing profiles.

## 17. Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	2,891	3,602

Cash at bank earns interest at both fixed term rates and floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is the same as stated above. At 31 December 2012, the Group had £nil (2011: £nil) of un-drawn committed borrowing facilities.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises cash at bank and in hand and short-term deposits.

## 18. Trade, other payables, provisions and financial liabilities

## Trade and other payables

Trade payables, other payables and deferred income are non-interest bearing.

*Current*

	2012 £'000	2011 £'000
Trade payables	669	796
Other payables	1,256	1,206
Deferred income	2,613	2,960
	4,538	4,962
	2012 £'000	2011 £'000
Income tax payable	-	-

*Non-current*

	£'000	£'000
Deferred income	548	929

## Provisions

	Property provisions £'000	Other provisions £'000	Total provisions £'000
At 1 January 2012			
- Current	38	215	253
- Non-current	184	264	448
	222	479	701
Finance charge	5	-	5
Utilised amounts during the period	(48)	(334)	(382)
Unused amounts reversed during the year	-	(145)	(145)
Further amounts provided during the year	-	-	-
At 31 December 2012			
- Current	126	-	126
- Non-current	53	-	53
	179	-	179

## NOTES TO THE FINANCIAL STATEMENTS

	Partnership provisions £'000	Property provisions £'000	Other provisions £'000	Total provisions £'000
At 1 January 2011				
- Current	25	38	-	63
- Non-current	117	306	-	423
	142	344	-	486
Finance charge	-	9	-	9
Utilised amounts during the period	(25)	(93)	-	(118)
Unused amounts reversed during the year	(117)	(38)	-	(155)
Further amounts provided during the year	-	-	479	479
At 31 December 2011				
- Current	-	38	215	253
- Non-current	-	184	264	448
	-	222	479	701

### *Partnership provision*

The partnership provision relates to payments contractually payable to software partners contingent on future minimum performance. The reduction in provision during the prior year reflects strong underlying trading which has exceeded these minimum performance levels and therefore the Directors concluded it unlikely that such partnership payments will be contractually required.

### *Property provisions*

The restructuring provision relates to a rationalisation of the Group's property portfolio and the resulting lease liabilities, comprising end of lease dilapidation costs and empty property costs. The provision has been discounted using a range of rates from 0.25% to 5% which the directors consider to be the relevant pre-tax risk based rate applicable to the liability.

### *Other provisions*

Other provisions relates to payments contractually payable to third parties in respect of the Group's RTFS solution. During the year the Group's Clareti Cash Reporting Service was terminated, resulting in both a charge to the provision and a release of excess provision as detailed in the table above.

## Financial liabilities

	2012 £'000	2011 £'000
Current		
Foreign currency derivative	-	18
	-	18

## 19. Obligations under leases

### Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties that have an average minimum duration of between 1 and 5 years. There are no unusual restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2012 £'000	Other 2012 £'000	Total 2012 £'000	Land and buildings 2011 £'000	Other 2011 £'000	Total 2011 £'000
Not later than one year	377	13	390	378	13	391
After one but not more than five years	182	-	182	203	13	216
	559	13	572	581	26	607

### Operating lease agreements where the Group is lessor

The Group has entered into commercial leases as lessor on a UK property that have average durations of less than 1 year. There are no unusual restrictions placed upon the lessor by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2012 £'000	Other 2012 £'000	Total 2012 £'000	Land and buildings 2011 £'000	Other 2011 £'000	Total 2011 £'000
Not later than one year	28	-	28	56	-	56
After one but not more than five years	-	-	-	28	-	28
	-	-	28	84	-	84

## 20. Financial instruments

### Objectives, policies and strategies

The Group's objective is to finance the business through management of existing liquidity; focusing on working capital acceleration to cash and converting illiquid assets to liquid assets and ultimately cash. Investments in intangible fixed assets, property, plant and equipment have been made with the benefit of Research & Development tax credits taken as cash.

The Group's policy towards using financial instruments is to manage credit, liquidity and currency exposure risk without exposing the Group to undue risk or speculation. The policy is kept under review by the Directors according to the Group's foreign exchange and treasury policy.

### Risk management

The risks arising from the Group's operations and financial instruments are explained below.

### Credit management

The Group monitors exposure to credit risk on an ongoing basis. The risk of financial loss due to a counterparty failure to honour its obligations arises principally in relation to transactions where the Group provides solutions and services on deferred terms and where it invests or deposits surplus cash.

Group policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. Solutions and services may be sold on a cash-with-order basis to mitigate credit risk. Bad debt insurance is not carried.



Performance of individual businesses is monitored at both operating unit and Group level allowing the early identification of major risks and reducing the likelihood of an unmanaged concentration of credit risk.

Cash investments are only allowed in liquid securities with major financial institutions that satisfy specific criteria. The maximum credit risk exposure at the statement of financial position date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk.

## Interest rate risk

The Group has limited exposure to interest rate risk since it has no bank borrowings and interest receivable on cash deposits does not form a material part of Group income.

## Capital risk

The Group defines its capital as the Group's total equity and manages capital based on the level of net cash held. Its objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, to provide an adequate return to investors based upon the level of risk undertaken, to have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefit to investors and maintain sufficient financial resources to mitigate risks and unforeseen events.

In order to maintain or adjust the capital structure the Group may issue new shares or sell assets to provide additional capital.

## Financial liabilities – by maturity

The table below summarises the remaining contractual maturity for the Group's financial liabilities, based on contractual undiscounted payments:

	Less than 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000
Year ended 31 December 2012			
Provisions	126	54	-
	126	54	-
Year ended 31 December 2011			
Provisions	238	204	292
	238	204	292

All current liabilities are expected to fall due within one year of the statement of financial position date at their carrying amount.

## Liquidity risk

The Group's liquidity risk falls within the following major categories:

- Trade receivables. A significant element of the Group's liquidity is tied up in working capital, which primarily comprises trade receivables. The settlement risk associated with these assets comprises both credit risk (the risk that the counterparty will not settle at all) and liquidity risk (the risk that the counterparty will not settle on time).
- Property, plant & equipment. A significant element of the Group's liquidity is tied up in tangible fixed assets. For those assets required in the business for day to day operations the Group considers the use of finance lease arrangements to reduce the amount of liquidity tied up in such assets. The Group keeps its investment in fixed assets under review and actively considers converting such assets to more liquid assets.
- Currency risk. This risk is discussed below.

The Group monitors and controls liquidity through the following key controls:

- Daily cash at bank is reported to the executive Board
- Cash forecasts are maintained
- Foreign exchange risks are hedged where significant
- Credit control is operated locally with Group oversight

Discounts are offered for early payment by customers and finance lease and deferred payment arrangements are considered to retain or improve liquidity.

### Fair values of financial assets and liabilities

Set out below is an analysis by category of the Group's financial assets and liabilities that are carried in the financial statements (there is no material difference between the carrying amounts and fair values):

Year ended 31 December 2012	Note	Loans and receivables	Fair value through profit & loss	Amortised cost	Total carrying amount
		£'000	£'000	£'000	£'000
<b>Financial assets</b>					
Trade receivables		1,945	-	-	1,945
Accrued income		665	-	-	665
Cash and cash equivalents		2,891	-	-	2,891
		5,501	-	-	5,501
<b>Financial liabilities</b>					
Trade payables		-	-	669	669
Other payables		-	-	690	690
Provisions		-	-	180	180
		-	-	1,539	1,539

Year ended 31 December 2011	Note	Loans and receivables	Fair value through profit & loss	Amortised cost	Total carrying amount
		£'000	£'000	£'000	£'000
<b>Financial assets</b>					
Trade receivables		2,028	-	-	2,028
Accrued income		502	-	-	502
Cash and cash equivalents		3,602	-	-	3,602
		6,132	-	-	6,132
<b>Financial liabilities</b>					
Trade payables		-	-	(796)	(796)
Other payables		-	-	(726)	(726)
Provisions		-	-	(701)	(701)
Foreign exchange instrument		-	(18)	-	(18)
		-	(18)	(2,223)	(2,241)

## Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held no foreign exchange instruments at 31 December 2012. As at 31 December 2011, the Group held a foreign exchange instrument that had been measured at fair value using Level 2 techniques.

Financial liabilities relate to derivative financial instruments which have a negative fair value. Fair value is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

## Currency risk

The Group has exposures to the main currency types: US Dollar, Canadian Dollar, Australian Dollar, Malaysian Ringgit and Euro rates in particular.

Currency exposure arises through intra-group loans and trading balances throughout all Group locations. Natural hedging is employed, to the extent possible, to minimise net exposures, however where significant exposures arise outside of intra-group trading, it is Group policy to enter in to formal hedging arrangements where these can be shown to be effective. At 31 December 2012, the Group had no outstanding forward currency contracts in respect of a foreign currency sale. At 31 December 2011, the group had the following outstanding forward currency contracts in respect of a foreign currency sale:

	Rate	Asset / (Liability)
Sell A\$500,000	28 Sep 12 £/A\$ 1.65	(18)

Currency exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved, other than those borrowings treated as hedges of foreign equity investments. In general all overseas operating units trade and hold assets and liabilities in their functional currency.

## Sensitivities

The following table details the Group's sensitivities to a change in sterling exchange rates against the respective foreign currencies. The sensitivities represent management's assessment of the effect on monetary assets of the possible changes in foreign exchange rates, which for 2012 and 2011 take account of the potential fluctuations seen in the most recent periods. The sensitivity analysis of the Group's exposure to foreign currency risk at the year end has been determined based on the assumption that the change is effective throughout the financial year and all other variables remain constant. The impact of translating the net assets of foreign operations into sterling is excluded from the sensitivity analysis.

A positive number indicates an increase in profit after taxation and other components of equity where sterling weakens against the respective currencies.

	Increase/Decrease in exchange rates	Effect on profit before tax £'000
<b>2012</b>		
Euro	+20%	(39)
	-20%	58
Australian Dollar	+20%	(224)
	-20%	336
US Dollar	+20%	(51)
	-20%	77
Canadian Dollar	+20%	(38)
	-20%	57
Malaysian Ringhit	+20%	(73)
	-20%	109
<b>2011</b>		
Euro	+20%	(56)
	-20%	85
Australian Dollar	+20%	(232)
	-20%	348
US Dollar	+20%	(128)
	-20%	192
Canadian Dollar	+20%	(14)
	-20%	21
Malaysian Ringhit	+20%	(57)
	-20%	86

The Group has no material exposure to interest rate sensitivities.

## 21. Issued share capital

Ordinary shares allotted, called up and fully paid	Number	Nominal value £'000
At 1 January 2011 and 31 December 2011	58,135,978	2,907
At 1 January 2012 and 31 December 2012	58,135,978	2,907

The Company's ordinary share capital consists of individual share having a nominal value of 5 pence each.

At 31 December 2012 and 2011 there were outstanding options granted to acquire ordinary shares in the Company. See note 22 for further details.

There are no preference shares in issue (2011: none).

An explanation of the Group's capital management process and objectives is set out in the discussion of capital management on page 9 in the Directors' report and capital risk disclosures in note 20.

## 22. Share-based payments

The following disclosures are in respect of both the Company and the Group.

The grant of all options and awards is made by the Remuneration Committee and such grants involve equity settlement. In granting executive share options the Remuneration Committee has regard to both the participant's level of responsibility within the Group and to individual and Group performance.

On 30 December 2010 shareholders voted to adopt 3 new share option schemes ("Share Options Schemes 2010"). On 31 December 2010 grants of options to subscribe for ordinary shares were made under these schemes, and simultaneously all existing grants of options issued under the Employee Option Plan 2007 were replaced.

### Share Option Schemes 2010

The Share Option Schemes 2010 were approved by shareholders on 30 December 2010. The Schemes consist of:

- the Gresham Computing plc Enterprise Management Incentive Plan 2010;
- the Gresham Computing plc Unapproved Share Option Plan 2010; and
- the Gresham Computing plc Non Employee Share Option Plan 2010.

As its name implies, the EMI Plan operates as an enterprise management incentive scheme complying with the EMI Code and accordingly being entitled to certain beneficial tax treatment.

The Unapproved Plan enables the Remuneration Committee to grant share options in excess of the limits applicable under the EMI Code and / or to employees of the Group who do not qualify for EMI treatment.

The Non Employee Plan enables the Remuneration Committee to grant share options to persons whose services are made available to the Group without a formal employment relationship.

The Remuneration Committee is responsible for administering the Share Option Schemes 2010, and may grant options to acquire Ordinary Shares to any employees and directors of the Group, and retains discretion to impose exercise performance conditions as appropriate. Options are granted free of charge and are non-transferable.

The exercise price per Ordinary Share is determined by the Remuneration Committee but will not be less than 110% of the middle market price for the dealing day immediately preceding the date of grant of the relevant option.

Options may normally be exercised only on or after the third anniversary of the date of grant; save to the extent that the Remuneration Committee in its discretion declares any other period for exercise and will lapse on cessation of such employment, save again to the extent the Remuneration Committee in its discretion allows it to remain exercisable for such period following the cessation as it may determine.

Exercise is permitted in conjunction with a takeover or similar transaction and in such circumstances the vesting period does not apply. In the event of a takeover, an option holder may by agreement with the acquirer exchange his options for options over shares in the acquiring Company.

At 31 December 2012, 29 participants held awards under this scheme (2011: 23).

### Executive Option Plan 2007 ("EOP")

This Plan was approved by shareholders on 29 June 2007 in General Meeting. All remaining grants previously issued under the Plan were cancelled on 31 December 2010 as a result of replacement grants issued from the Share Option Schemes 2010.

The Executive Option Plan 2007 has no participants as at 31 December 2012 (2011: none) and is closed to new participants or any further grants.

### Executive Scheme 1998

Approved options under this scheme are only exercisable if, on average, over a three year period the Group's earnings per share increase by five per cent per annum above the retail price index. Any un-approved options granted under this scheme may also be subject to additional individual performance criteria.

Options are capable of exercise after three years and within ten years of the date of grant.

At 31 December 2012, 2 participants held options under this scheme (2011: 2). No further options will be granted in respect of this scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2012, including those noted in the Directors' Remuneration Report are as follows:

	Note	2012 Number	2012 WAEP (pence)	2011 Number	2011 WAEP (pence)
Executive scheme 1998 (options)					
Outstanding at 1 January	1	5,000	70	562,897	36
Forfeited		-	-	(557,897)	36
Outstanding at 31 December	1	5,000	70	5,000	70
Exercisable at 31 December		5,000	70	5,000	70
Weighted average remaining contractual life (years)		0.31		1.31	

#### Share Option Schemes 2010 (options)

Outstanding at 1 January	5,538,000	28	5,500,000	28
Granted during the year	1,235,000	64	313,000	58
Forfeited during the year	(45,000)	28	(275,000)	58
Outstanding at 31 December	6,728,000	35	5,538,000	28
Exercisable at 31 December	-	-	-	-
Weighted average remaining contractual life (years)	1.24		2.00	

No price is payable on award of share options.

Outstanding options and awards to subscribe for ordinary shares of 5p at 31 December 2012, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
<i>Executive Scheme 1998</i>	5,000	22-Apr-03	0.7000	22-Apr-06	22-Apr-13	3,500
<i>Share Option Schemes 2010</i>	5,500,000	31-Dec-10	0.2805	31-Dec-13	31-Dec-20	1,542,750
	38,000	05-Aug-11	0.5803	05-Aug-14	05-Aug-21	22,051
	1,000,000	06-Apr-12	0.6424	06-Apr-15	06-Apr-22	642,400
	100,000	23-May-12	0.6105	23-May-15	23-May-22	61,050
	135,000	15-Aug-12	0.6850	15-Aug-15	15-Aug-22	92,475
						2,360,726

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2011, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

## NOTES TO THE FINANCIAL STATEMENTS

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry date	Cash receivable if exercised £
<i>Executive Scheme 1998</i>	5,000	22-Apr-03	0.7000	22-Apr-06	22-Apr-13	3,500
<i>Share Option Schemes 2010</i>	5,500,000	31-Dec-10	0.2805	31-Dec-13	31-Dec-20	1,542,750
	38,000	05-Aug-11	0.5803	05-Aug-14	05-Aug-21	22,051
	5,538,000	31-Dec-10	0.2805	31-Dec-13	31-Dec-20	1,553,409

The fair value of outstanding equity-settled share options granted was estimated as at the date of grant as follows:

### *Executive scheme 1998*

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. In all cases, the exercise price at the date of grant is equal to the market price at the date of grant. No options were granted in 2012 or 2011.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

### *EOP 2007*

The fair value of equity-settled share options granted has been estimated as at the date of grant, by an independent remuneration consultant with the relevant skills, with a Monte-Carlo risk-neutral model using a lognormal distribution to simulate thousands of share price outcomes, taking into account the terms and conditions upon which the options were granted. The following table lists the range of inputs to the model used for the grants made:

	2008 grants	2007 grants
Vesting date	Between 3 and 6 years	Between 3 and 6 years
Expiry date	6 years after grant	6 years after grant
Exercise price	£0.62 to £0.80	£1.15
Share price at valuation	£0.59 to £0.66	£1.05
Vested options expected life	The minimum of 1 year after vesting and full term to expiry	The minimum of 1 year after vesting and full term to expiry
Volatility	50% (expected future volatility, based on historical analysis and trend)	50% (expected future volatility, based on historical analysis and trend)
Dividend yield	0%	0%
Risk free rate	4.52% to 5.04% (spot yield on valuation date of 6-year nil-coupon UK government bonds)	4.85% (spot yield on valuation date of 6-year nil-coupon UK government bonds)
Simulations	60,000	60,000
Impact of continued employment conditions	70% attrition rate on average	30% attrition rate on average

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future

trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

#### Share Option Schemes 2010

The fair value of equity-settled share options granted by the Share Option Schemes 2010 is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. In all cases, the exercise price is at least 110% of the market price on the day prior to the date of grant.

The following table lists the range of inputs to the model used for the grants made:

	2012 grants	2011 grants	2010 grants
Vesting date	6 Apr 15 to 15 Aug 15	05 Aug 14	31 Dec 13
Expiry date (no. of years after grant)	10	10	10
Exercise price	£0.61 - £0.69	£0.58	£0.28
Share price at valuation	£0.52 - £0.58	£0.53	£0.26
Vested options expected life	5.6 years	5.6 years	5.9 years
Volatility	30.0% <sup>(1)</sup>	46.3% <sup>(1)</sup>	43.8% <sup>(1)</sup>
Dividend yield	0%	0%	0%
Risk free rate	1.0% <sup>(2)</sup>	2.7% <sup>(2)</sup>	3.5% <sup>(2)</sup>
Impact of continued employment conditions	30% <sup>(3)</sup>	30% <sup>(3)</sup>	30% <sup>(3)</sup>

<sup>(1)</sup> Expected future volatility, based on historical analysis and trend

<sup>(2)</sup> Spot yield on valuation date of UK government bonds with a comparable maturity date

<sup>(3)</sup> Attrition rate on average

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The expenses expense recognised in the income statement for all equity settled share-based payments in respect of employee services received is as follows:

	2012	2011
	£'000	£'000
Expense recognised in respect of share-based payments	202	300



## 23. Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation £'000	Retained earnings £'000	Total £'000
At 1 January 2011	2,907	13,124	1,039	346	(15,440)	1,976
Attributable profit for the period	-	-	-	-	1,747	1,747
Other comprehensive income	-	-	-	14	-	14
Total comprehensive income/(expense)	-	-	-	14	1,747	1,761
Share based payment expense	-	-	-	-	300	300
At 31 December 2011	2,907	13,124	1,039	360	(13,393)	4,037
Attributable profit for the period	-	-	-	-	1,965	1,965
Other comprehensive income	-	-	-	(60)	-	(60)
Total comprehensive income	-	-	-	(60)	1,965	1,905
Share based payment expense	-	-	-	-	202	202
At 31 December 2012	2,907	13,124	1,039	300	(11,226)	6,144

### Share capital

The balance classified as share capital represents the nominal value arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares.

### Share premium

The balance classified as share premium represents the premium arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, the same issues of shares or debentures of the Company.

### Other reserves

The balance classified as other reserves comprises a special reserve of £313,000 and merger reserve of £726,000. The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The merger reserve arose on issue of shares in respect of acquisitions and mergers in the period 1992 to 1999.

### Currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

### Retained earnings

The cumulative amount of goodwill written off to reserves at 31 December 2012 and 2011 is £7,326,000. Goodwill previously written off to reserves will remain so written off.

## 24. Events after the Reporting Period

On 8 March 2013, we announced we had signed and completed an agreement to sell our 100% equity share interest in Gresham Computing Inc (Canada) ("GCIC") to BITSS Global Inc. ("Bevertec"). The total consideration received was £0.5 million, representing a settlement of the inter-company debt owed by GCIC to Gresham and a nominal amount for the shares of GCIC. The consideration was satisfied in cash in full on closing. The sale proceeds from the disposal will be used for general corporate purposes. The unaudited gross assets of GCIC as at 31 December 2012 were £0.4 million, the unaudited revenue of GCIC for the year ended 31 December 2012 was £1.8m and the unaudited profit or loss, after allocation of central costs for group segmental analysis purposes, was £nil million. The group loss on disposal of GCIC is approximately £0.3 million with a net cash inflow of approximately £0.3 million.

The disposal is expected to have little impact on the Group's ongoing profitability at an operating level and we are confident the employees and customers of the disposed business will benefit from being owned by a company that has a strong presence in the Caribbean market with existing core strengths in financial markets.

This transaction represents the final step in the restructuring and refocusing of Gresham's activities, which to date has resulted in a transition to stability, profitability and growth. The disposal allows us to focus attention on our strategic objectives for Clareti Transaction Control in North America, through further investment in our Gresham North American business, based in Denver Colorado, which already supports software deployments at over fifty major customers globally; over twenty of which are major financial institutions.

### *Assets and liabilities disposed of other than cash*

	£'000
Intangible fixed assets	212
Tangible fixed assets	17
Current assets	545
Current liabilities	(128)
Deferred income	(320)
<b>Total assets and (liabilities) disposed of other than cash and cash equivalents</b>	<b>326</b>

### *Cash and cash equivalents relating to the disposal*

	£'000
Disposal consideration discharged by means of cash	490
Cash and cash equivalents in company on disposal	(38)
<b>Net cash inflow from disposal of subsidiary undertaking</b>	<b>452</b>
Costs relating to the disposal	(127)
<b>Net cash inflow from disposal of subsidiary undertaking after costs</b>	<b>325</b>

## Loss on disposal

	£'000
Total consideration	452
Net assets (excluding cash) disposed	(326)
	<hr/>
	126
Costs relating to the disposal	(127)
Deferred cumulative foreign exchange transferred from equity	(145)
	<hr/>
Net loss on disposal of Gresham Computing Inc.	<hr/> (146) <hr/>

The disposal of GCI did not qualify as an asset held for sale at 31 December 2012.

GCI is included within North America RTFS operating segment as per note 4.

## 25. Capital commitments

At 31 December 2012, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2011: £nil).

## 26. Contingent liabilities and contingent assets

### Contingent liabilities

In the normal course of business, the parent Company has issued general guarantees in respect of the contractual obligations of certain subsidiary undertakings from which no liability is expected to arise.

## 27. Related party transactions

There is no single party known that the directors consider to be a controlling shareholder or ultimate parent undertaking. Refer to page 13 for details of all significant shareholders that the company has been notified of.

Key management personnel are defined for the purpose of these financial statements as the Board of directors and information concerning the remuneration of these directors can be found in the Remuneration Report. The share-based payments charge arising in respect of Board directors in 2012 was £103,000 (2011: charge of £176,000).

The services of M Royde, Non-Executive Director, are provided and invoiced by Kestrel Partners LLP, a company in which he has an ownership interest. During the year ended 31 December 2012, the Company was charged £30,000 by Kestrel Partners LLP (2011: £30,000), none of which (2011: £nil) remained unpaid at the year end. The total value of transactions with Kestrel Partners LLP in respect of the provision of M Royde's services is shown in the Directors' Remuneration Report.

	Notes	31 December 2012 £'000	31 December 2011 £'000
Fixed assets			
Investments	5	9,232	9,065
		9,232	9,065
Current assets			
Debtors	6	9,275	10,611
Cash at bank and in hand		1,586	1,828
		10,861	12,439
Creditors: amounts falling due within one year	7	3,839	5,132
Net current assets		7,022	7,307
Total assets less current liabilities		16,254	16,372
Capital and reserves			
Called up share capital	9	2,907	2,907
Share premium account	10	13,124	13,124
Special reserve	10	313	313
Merger reserve	10	6,609	6,609
Profit and loss account	10	(6,699)	(6,581)
Shareholders' funds - equity interests	10	16,254	16,372

The financial statements were approved by the Board of Directors and authorised for issue on 25 March 2013.

On behalf of the Board

C Errington  
25 March 2013

R Grubb  
25 March 2013

## 1. Accounting policies

### Basis of preparation

The parent Company financial statements of Gresham Computing plc (the "Company") have been prepared in accordance with United Kingdom Generally Accepted Accounting Practices (UK GAAP) and as required by the Companies Act 2006, and were approved for issue on 25 March 2013.

The financial statements are prepared under the historical cost convention as modified for financial instruments that are measured at fair value, and are prepared in accordance with applicable accounting standards.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. For the year ended 31 December 2012, the Company recorded a loss of £320,000 (2011: profit of £134,000).

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 Financial Instruments: Disclosures and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

### Investments

Investments are recorded at cost less provision for impairment.

### Financial assets

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the profit and loss account.

### Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### Other receivables

Where the time value of money is material, other receivables are carried at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of

gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured, on a undiscounted basis, at rates expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date as they apply in the periods in which the timing differences are expected to reverse.

### Foreign currencies

Transactions denominated in foreign currencies are translated at an approximation of the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. Resulting exchange gains and losses are taken to the profit and loss account.

### Financial instruments

The Company uses forward foreign currency contracts to reduce exposure to movements in foreign exchange rates. Such instruments are stated at fair value. Gains and losses arising from changes in fair value are taken to the profit and loss account in the period.

Fair value of derivative financial instruments is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

### Related party transactions

The Company has taken advantage of the exemption under FRS 8 from disclosing related party transactions with entities that are wholly owned subsidiary undertakings of the Gresham Computing plc Group.

### Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the period to the next rent review.

### Classification of shares as debt or equity

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- (ii) the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

When shares are issued, any component that creates a financial liability of the Company is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

## Share-based payments – Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised in the Company financial statements as a capital contribution to the subsidiaries for whom the employees perform services, with the credit entry being made to reserves, over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). Fair value of awards with a financial result based performance target is determined by management using the Black Scholes pricing model.

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

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised as a capital contribution, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised as a capital contribution over the original vesting period. In addition, an expense is recognised as a capital contribution over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is recorded as a capital contribution immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as a capital contribution in the balance sheet.

## 2. Auditors' remuneration

	2012 £'000	2011 £'000
Audit of the financial statements		
Audit services - parent	6	6
	6	6
Additional information		
Audit services - group	11	11
Audit services - subsidiaries	31	31
	42	42
Non-audit fees		
Corporate taxation services	2	2
Share option scheme establishment	-	-
	2	2

### 3. Directors' remuneration

Information concerning directors' remuneration and gains on exercise of share options can be found in the Directors' remuneration report on pages 22 to 25 and in note 7 to the Group financial statements.

### 4. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2011: None).

### 5. Investments

	Subsidiaries 2012 £'000	Subsidiaries 2011 £'000
Cost:		
At 1 January	23,418	23,394
Capital contribution - share based payments	167	24
At 31 December	23,585	23,418
Impairment provisions:		
At 1 January	14,353	14,353
Impairment charge	-	-
At 31 December	14,353	14,353
Net book value:		
At 31 December	9,232	9,065

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:



## NOTES TO THE COMPANY FINANCIAL STATEMENTS

<i>Name of subsidiary company</i>	<i>Country of incorporation</i>	<i>Holding (shares)</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
Gresham Computer Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Financial Systems Limited	England	Ordinary	100%	Real time financial solutions
Gresham Enterprise Storage Inc <sup>(4)</sup>	USA	Ordinary	100%	Software
Gresham Computing Inc <sup>(4)</sup>	Canada	Ordinary	100%	Real time financial solutions
Gresham Computing Pty Limited <sup>(4)</sup>	Australia	Ordinary	100%	Real time financial solutions
Gresham Computing Sdn Bhd <sup>(1)</sup>	Malaysia	Ordinary	100%	Real time financial solutions
Gresham Computing Pte. Limited <sup>(2)</sup>	Singapore	Ordinary	100%	Real time financial solutions
Gresham Consultancy Services Limited <sup>(3)</sup>	England	Ordinary	100%	Real time financial solutions
Casablanca Software Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Clareti Systems Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Circa Selection Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Gresham Software Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Gresham Telecomputing Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
ITEC Computer Brokering Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Gresham Computer Personnel Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Circa Business Systems Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Cheerkeep Limited <sup>(3)</sup>	England	Ordinary	100%	Dormant
Circa Business Systems Inc <sup>(4)</sup>	Canada	Ordinary	100%	Dormant
Gresham Computing Inc <sup>(4)</sup>	USA	Ordinary	100%	Dormant

<sup>(1)</sup> held by a subsidiary undertaking

<sup>(2)</sup> incorporated on 8 February 2013

<sup>(3)</sup> subsidiary exempt from UK audit under s480a of the Companies Act 2006

<sup>(4)</sup> subsidiary has no requirement for a local statutory audit

On 8 March 2013 the Group disposed of its wholly owned Canadian subsidiary Gresham Computing Inc. The details of the disposal are included within note 24 of the Group financial statements.

### 6. Debtors

	2012 £'000	2011 £'000
Amounts owed by subsidiary undertakings	9,580	10,603
Prepayments and accrued income	10	8
	9,590	10,611

### 7. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings	3,696	4,901
Trade creditors	28	81
Other creditors and accruals	115	132
Financial liabilities	-	18
	3,839	5,132

## 8. Deferred tax

The Company has an unrecognised deferred tax asset as follows:

	2012 £'000	2011 £'000
Share based payments	23	15
Tax losses	81	124
	104	139

## 9. Issued Share capital

Ordinary shares allotted, called up and fully paid

	Number	Nominal value £'000
At 1 January 2011 and 31 December 2011	58,135,978	2,907
At 1 January 2012 and 31 December 2012	58,135,978	2,907

The Company's ordinary share capital consists of individual share having a nominal value of 5 pence each.

At 31 December 2012 and 2011 there were outstanding options granted to acquire ordinary shares in the Company. See note 22 for further details.

There are no preference shares in issue (2011: none).

## 10. Reconciliation of movements in shareholders' funds

	Capital £'000	Premium £'000	Reserve £'000	Reserve £'000	Loss Account £'000	Total £'000
At 1 January 2011	2,907	13,124	313	6,609	(6,802)	16,151
Share based payments expense	-	-	-	-	87	87
Retained profit for the year	-	-	-	-	134	134
At 31 December 2011	2,907	13,124	313	6,609	(6,581)	16,372
Share based payments expense	-	-	-	-	202	202
Retained loss for the year	-	-	-	-	(320)	(320)
At 31 December 2012	2,907	13,124	313	6,609	(6,699)	16,254

### Share capital

The balance classified as share capital represents the nominal value arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares.

### Share premium

The balance classified as share premium represents the premium arising from the issue of the Company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, the same issues of shares or debentures of the Company.

### Other reserves

The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The merger reserve arose on issue of shares in respect of acquisitions and mergers in the period 1992 to 1999.

## 11. Other financial commitments

### Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties that have an average minimum duration of between 1 and 5 years. There are no unusual restrictions placed upon the lessee by entering into these leases.

At 31 December the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2012 £'000	Land and buildings 2011 £'000
Operating leases which expire:		
Within one year	113	20
Within two to five years	110	203
	<b>223</b>	<b>223</b>

### Operating lease agreements where the Group is lessor

The Group has entered into commercial leases on a UK property that have an average duration of less than 1 year. There are no unusual restrictions placed upon the lessor by entering into these leases.

At 31 December there were annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2012 £'000	Land and buildings 2011 £'000
Operating leases which expire:		
Within one year	28	-
Within two to five years	-	56
	<b>28</b>	<b>56</b>

## 12. Capital commitments

At 31 December 2012, Company amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2011: £nil).

## 13. Contingent liabilities

In the normal course of business, the Company has issued general guarantees in respect of the contractual obligations of certain subsidiary undertakings.

## 14. Share-based payments

Share based payments in respect of both the Company and the Group are disclosed in note 22 of the Group financial statements.

## 15. Related party transactions

There is no single party known that the directors consider to be a controlling shareholder or ultimate parent undertaking. Refer to page 13 for details of all significant shareholders that the company has been notified of.

The services of M Royde, Non-Executive Director, are provided and invoiced by Kestrel Partners LLP, a company in which he has an ownership interest. During the year ended 31 December 2012, the Company was charged £30,000 by Kestrel Partners LLP (2011: £30,000), none of which (2011: £nil) remained unpaid at the year end. The total value of transactions with Kestrel Partners LLP in respect of the provision of M Royde's services is shown in the Directors' Remuneration Report.



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