

**gresham computing plc**

interim report 2006



**gresham**<sup>TM</sup>  
banking • integration • storage





Gresham Computing plc  
Registered No. 1072032

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J E Aves

A J S Walton-Green  
S W Purchase  
R Glenn  
C M Errington

Non-Executive Chairman  
Non-Executive Director,  
Chairman of Audit and Remuneration Committees  
Chief Executive  
Commercial Director  
Sales and Marketing Director  
Finance Director

## Secretary

C M Errington

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I am pleased to present my report on the group's activities and results for the six months ended 30 June 2006.

## Introduction

The period to the date of this report has been one of significant change and activity for Gresham.

- Assumed primary responsibility for Real Time Nostro service from Cable & Wireless and continued progress with users and providers;
- Revenue up 5% to £7.0m (2005: £6.6m)
- Loss before tax reduced by 42% to £0.4m (2005: £0.7m loss);
- Cash up at £5.3m (31 December 2005 £2.0m);
- Launched our Virtual Tape Library solution;
  - Ranked 2nd in the world by independent storage analysts
  - First OEM channel deal secured with partner
- Proposed launch of Gresham Payables Financing Service H2 2006; and
- A number of strategic hires focused on growing the business more quickly.

## CWRTN

In April, Gresham and Cable & Wireless announced a revision to operating responsibilities in the delivery of the collaborative CWRTN service. Gresham assumed primary responsibility for the sales, marketing, integration and application software management. Cable & Wireless continue to support the roll out globally and in particular are responsible for the secure hosting and managed infrastructure, which are fundamental to the integrity and delivery of the service. These new arrangements strongly align both parties' operating

responsibilities with their core strengths and are aimed at ensuring that our customers are served in the most appropriate manner.

Under the agreement both parties continue to share net subscription revenues generated by CWRTN with the shares amended to reflect ongoing operating responsibilities. Gresham now receives a significant majority of revenues arising from the service. Cable & Wireless continue to provide the ongoing hosting and infrastructure services for CWRTN, have made a substantial up-front cash payment to Gresham in the first half and are making an ongoing contribution to the costs of taking CWRTN to market.

Since April, the primary sales and marketing responsibility has been successfully transferred to Gresham and we increased our team accordingly. We initiated a period of customer consultation and engagement to ensure that the strategy for CWRTN is properly aligned to customer needs. Feedback from the major banks around Gresham assuming the primary role has been generally positive. The following progress was achieved in the period:

- A total of 5 major banks have now agreed to take the CWRTN Direct service, 3 of which are top 20 banks. Several other major banks are currently evaluating the CWRTN Direct service and in particular the SWIFTNet delivery route;
- The number of banks subscribed to the CWRTN Browser service remained at 4, including 2 of the world's top 10 banks, with an increase in the number of currencies under subscription. We are engaged with several new potential subscriber banks for the Browser service;
- A total of 21 banks have now agreed to provide data, including 7 of the top 20 banks in the world and all of the top 4. Work has continued on integrating more of these Provider banks into the service,

increasing the number of currencies available and improving user subscription interest; and

- We are in detailed discussion with a number of other major banks with a view to becoming Providers as well as seeking to accelerate integration of existing Providers using the preferred SWIFTNet method and application.

## Enterprise Solutions

Our Enterprise Solutions business results were much improved on H1 05 with revenues up 23% and losses down by 59%. Cost control played a major part in reducing first half losses for this business segment. We saw growth from our Integrated Client Money Solution working alongside Barclays Bank as we jointly roll the solution out to a strong customer pipeline.

We continue to invest in developing our patent pending payables financing solution, Gresham Payables Financing Solution ("GPFS"), and are currently working on launching services in both Asia and Europe.

Our IT recruitment services business delivered a solid performance in the first half with revenue up 20% on H1 2005 and profitability improved.

## Enterprise Software

Revenue in our Enterprise Software business was down 15% compared to H1 2005 with profits also reduced. Our French storage business underperformed and accounted for the majority of the decrease in revenue and profitability with the balance accounted for by an expected slower start for our well established storage products. We have restructured the French storage business to reduce our exposure in that market, reducing headcount from 14 to 3 supporting our French customer base, which will significantly reduce costs going into H2 2006.

We have continued to make significant investment in our new Virtual Tape Library solution (Storage Consolidation Platform – "SCP") and were delighted to receive glowing results in an independent product test performed by Diogenes Analytical Labs ranking us in the global top two Virtual Tape Library storage products. A key route to market for SCP is through OEM channels and in July we signed our first OEM deal with Tributary Systems Inc, targeted at the HP Non-Stop platform market. TSI have indicated that they expect first live users in the second half of 2006.

In October, we will be showcasing our Storage Solutions at Storage Networking World (Orlando, USA).

## Summary of financial performance

Revenues for the first six months increased 5% to £7.0m (2005: £6.6m) and the loss before tax was reduced by 42% to £0.43m (2005: £0.74m loss).

Period end cash was £5.3m, a significant increase on the prior balance of £2.0m at 31 December 2005 as a result of payments received from Cable & Wireless under the new RTN arrangement and a major receipt in January from Q4 2005 trading.

## People Changes

We have taken steps to strengthen our sales and marketing resources, both in response to the CWRTN announcement and also to improve our approach to market in the real-time payments and storage solutions markets generally. These changes were mostly implemented in June and July and will increase the market's awareness of Gresham solutions through direct customer facing activities. Whilst this represents a substantial investment we believe that such investment is justified to now engage strongly with customers and prospects.

## Future Outlook

We have solutions intended to deliver short, medium and long term returns in the real-time financial and storage solutions markets. Initiatives such as Real Time Secure Communications and SCP provide the opportunity to grow revenues in the short term, complementing revenues from our existing legacy products. Solutions such as GPFS are expected to begin generating revenues in the short to medium term. CWRTN is already delivering revenue and we anticipate that these revenues will continue to grow over time with the opportunity to earn substantial revenues in the long term.

The revised CWRTN agreement gives us the continuing support of Cable & Wireless and the opportunity to derive a greater share of the revenue from the service. The regulatory demands for real-time information have increased. From our existing pipeline, we anticipate further growth in CWRTN users and providers in the second half, building from our presence at SIBOS and ongoing activity.

The market interest for GPFS is high and we are working with potential customers and partners towards having our first GPFS installation live in the second half of 2006.

SCP brings significant value to customers especially those with multiple storage platforms and we will continue to seek further OEM deals in the second half and at the same time adopting a direct sales approach to existing customers.

Taking into account all these factors, I believe that we have emerged from the first half stronger and better capable of driving the business forward. We are focused on improving trading for 2006 and beyond.



**Alan Howarth**

Chairman

4 September 2006

**GROUP INCOME STATEMENT**  
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	6 months ended 30 June 2006 Unaudited £'000	6 months ended 30 June 2005 Unaudited £'000	12 months ended 31 December 2005 Audited £'000
Revenue	2	6,967	6,634	13,982
Cost of goods sold		(3,924)	(3,471)	(7,205)
Gross profit		3,043	3,163	6,777
Administrative expenses		(3,527)	(3,946)	(8,133)
Trading loss	2	(484)	(783)	(1,356)
Finance revenue		56	49	124
Finance costs		(5)	(8)	(14)
Loss before tax	2	(433)	(742)	(1,246)
Taxation	3	50	110	145
Attributable to equity holders of the parent	6	(383)	(632)	(1,101)
Loss per share (total and continuing)				
Basic loss per share – pence	4	(0.76)	(1.27)	(2.20)
Diluted loss per share – pence	4	(0.76)	(1.27)	(2.20)

**GROUP STATEMENT OF  
RECOGNISED INCOME AND EXPENSE**  
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	6 months ended 30 June 2006 Unaudited £'000	6 months ended 30 June 2005 Unaudited £'000	12 months ended 31 December 2005 Audited £'000
Exchange differences on translation of foreign operations	(81)	(56)	—
Net expense recognised directly in equity	(81)	(56)	—
Attributable loss for the period	(383)	(632)	(1,101)
Total recognised income and expense	(464)	(688)	(1,101)



	Notes	At 30 June 2006 Unaudited £'000	At 30 June 2005 Unaudited £'000	At 31 December 2005 Audited £'000
<b>Assets</b>				
Non-current assets				
Property, plant and equipment		1,205	1,278	1,271
Intangible assets	7	5,334	1,560	1,879
		6,539	2,838	3,150
Current assets				
Trade and other receivables	7	2,634	7,579	8,175
Income tax receivable		302	214	252
Other financial assets		36	—	40
Cash and cash equivalents		5,327	2,105	1,973
		8,299	9,898	10,440
<b>Total Assets</b>		<b>14,838</b>	<b>12,736</b>	<b>13,590</b>
<b>Equity and liabilities</b>				
Equity attributable to equity holders of the parent				
Called up equity share capital	6	2,513	2,490	2,513
Share premium account	6	10,009	9,937	10,009
Other reserves	6	1,039	1,039	1,039
Foreign currency translation reserve	6	(110)	(85)	(29)
Retained earnings	6	(6,365)	(5,528)	(5,973)
	6	7,086	7,853	7,559
Non-current liabilities				
Financial liabilities		—	38	21
Deferred income	7	2,058	118	680
Current liabilities				
Financial liabilities		28	37	43
Income tax payable		109	20	109
Trade, other payables and deferred income	7	5,557	4,670	5,178
<b>Total liabilities</b>		<b>7,752</b>	<b>4,883</b>	<b>6,031</b>
<b>Total equity and liabilities</b>		<b>14,838</b>	<b>12,736</b>	<b>13,590</b>

## GROUP CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	At 30 June 2006 Unaudited £'000	At 30 June 31 2005 Unaudited £'000	At 31 December 2005 Audited £'000
<b>Cashflows from operating activities</b>				
Trading loss		(484)	(783)	(1,356)
Depreciation and amortisation		152	189	586
Share based payment (credit) / expense		(9)	18	42
Decrease / (Increase) in trade and other receivables		2,104	(371)	(1,424)
Increase in trade and other payables	7	1,903	32	976
Cash inflow / (outflow) from operations	7	3,666	(915)	(1,176)
Net income taxes received		—	259	431
Net cash inflow / (outflow) from operating activities		3,666	(656)	(745)
<b>Cash flows from investing activities</b>				
Interest received		56	49	84
Repayment of convertible bonds		—	24	400
Purchase of property, plant and equipment		(42)	(57)	(155)
Disposal of property, plant and equipment		—	—	4
Payments to acquire intangible fixed assets		(262)	(250)	(709)
Net cash used in investing activities		(248)	(234)	(376)
<b>Cash flows from financing activities</b>				
Proceeds from issue of ordinary share capital		—	33	140
Share issue costs		—	—	(10)
Interest paid		(5)	(8)	(14)
Decrease in obligations under finance leases		(30)	(38)	(65)
Net cash (used in) / generated by financing activities		(35)	(13)	51
Net increase / (decrease) in cash and cash equivalents		3,383	(903)	(1,070)
Cash and cash equivalents at beginning of period		1,973	3,016	3,016
Exchange adjustments		(29)	(8)	27
Cash and cash equivalents at end of period		5,327	2,105	1,973



## 1 Basis of preparation

These interim financial statements are unaudited and do not constitute statutory accounts within the meaning of s240 of the Companies Act 1985.

The interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' and the Listing Rules of the Financial Services Authority ('FSA'). The accounting policies applied in these interim financial statements are consistent with those applied in the Group's most recent annual financial statements. The interim financial statements were approved by the Board on 4 September 2006.

The financial statements for the year ended 31 December 2005, which were prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union ('IFRS'), and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on these financial statements was unqualified and did not contain a statement made under s237 (2) or (3) of the Companies Act 1985.

These interim financial statements will be forwarded to shareholders shortly.

## 2 Segmental information

The primary segment reporting format is determined to be business segments as the group's risks and rates of return are affected predominantly by differences in the products and services provided. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The solutions segment is a supplier of solutions predominantly to the finance and banking markets. The software segment is a supplier of software products and related services.

Transfer prices between business 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.

*Primary reporting format – Business segments*

The following tables present revenue and profit/loss information regarding the group's business segments for the periods ended 30 June 2006 and 30 June 2005, all of which are continuing.

## Revenue

	Six months ended 30 June 2006			Six months ended 30 June 2005		
	Segment revenue £'000	Inter- segment revenue £'000	Sales to external customers £'000	Segment revenue £'000	Inter- segment revenue £'000	Sales to external customers £'000
Solutions	2,301	—	2,301	1,828	—	1,828
IT recruitment services	1,984	(19)	1,965	1,654	(10)	1,644
Enterprise Solutions	4,285	(19)	4,266	3,482	(10)	3,472
Enterprise Software	2,701	—	2,701	3,162	—	3,162
	6,986	(19)	6,967	6,644	(10)	6,634

## Result by segment

	Six months ended 30 June 2006			Six months ended 30 June 2005		
	Enterprise Solutions £'000	Enterprise Software £'000	Total £'000	Enterprise Solutions £'000	Enterprise Software £'000	Total £'000
Segment result	(541)	614	73	(1,313)	1,070	(243)
Unallocated expenses			(557)			(540)
Trading loss			(484)			(783)
Net finance revenue			51			41
Loss before income tax			(433)			(742)

### 3 Taxation

	Six months ended 30 June 2006 £'000	30 June 2005 £'000	Year ended 31 December 2005 £'000
<i>UK tax</i>			
Research and development credit	50	110	234
<i>Foreign tax</i>			
Withholding tax charge	—	—	(89)
	50	110	145

### 4 Loss per ordinary share

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

Diluted loss per share amounts are calculated by dividing the net loss or profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period 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.

The following reflects the loss and share data used in the basic and diluted loss per share computations:

	Six months ended 30 June 2006 £'000	30 June 2005 £'000	Year ended 31 December 2005 £'000
Net loss attributable to equity holders of the parent	(383)	(632)	(1,101)
	Number	Number	Number
Basic weighted average number of shares			
Dilutive potential ordinary shares:	50,269,809	49,646,035	49,945,603
Employee share options	—	—	—
Diluted weighted average number of shares	50,269,809	49,646,035	49,945,603

The employee share options are not dilutive because they would reduce the loss per share in both years.

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

## 5 Dividends paid and proposed

No dividends were declared or paid during the period or comparative periods.

## 6 Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2005	2,479	9,713	1,039	(29)	(4,914)	8,288
Exchange differences on translation of foreign operations	—	—	—	(56)	—	(56)
Share based expense recognised in the income statement	—	—	—	—	18	18
Issue of shares	11	232	—	—	—	243
Share issue costs	—	(8)	—	—	—	(8)
Attributable loss for the period	—	—	—	—	(632)	(632)
At 30 June 2005	2,490	9,937	1,039	(85)	(5,528)	7,853
Exchange differences on translation of foreign operations	—	—	—	56	—	56
Share based expense recognised in the income statement	—	—	—	—	24	24
Issue of shares	23	74	—	—	—	97
Share issue costs	—	(2)	—	—	—	(2)
Attributable loss for the period	—	—	—	—	(469)	(469)
At 31 December 2005	2,513	10,009	1,039	(29)	(5,973)	7,559
Exchange differences on translation of foreign operations	—	—	—	(81)	—	(81)
Share based expense recognised in the income statement	—	—	—	—	(9)	(9)
Issue of shares	—	—	—	—	—	—
Share issue costs	—	—	—	—	—	—
Attributable loss for the period	—	—	—	—	(383)	(383)
At 30 June 2006	2,513	10,009	1,039	(110)	(6,365)	7,086

## 7 Change of arrangement with Cable & Wireless

As a result of the new arrangement agreed with Cable & Wireless in April 2006, a one off payment of cash was made to Gresham by Cable & Wireless in the period. In addition, from April 2006 additional fixed quarterly payments are being made to Gresham by Cable & Wireless. The initial one off payment is being deferred in the balance sheet and released on a straight line basis as a credit to administrative expenses over a period of 3 years from May 2006 to be matched against additional costs incurred by Gresham under the new arrangement. The further fixed quarterly payments are also being deferred in the balance sheet and released on a straight line basis as a credit to administrative expenses over the quarters to which they relate. In the six months to 30 June 2006 the credit to administrative expenses totalled approximately £200,000, with no impact on the comparative figures. As a consequence of the new arrangement with Cable & Wireless, £3.3m of costs previously reported in the balance sheet as contract costs within current assets have been reclassified as research and development expenditure and included within intangible assets where they continue to be amortised over their useful life against associated revenues, with no impact on the comparative figures.

The payments noted above led to a gross operating cash receipt during the period of £3.3m, inclusive of £0.5m of output VAT which was subsequently paid to HM Revenue and Customs in August 2006.





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