

Patsystems Plc
Annual report & accounts 2010



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Overview

About Patsystems

Patsystems delivers tailored solutions, built from modular components, to enhance derivatives trading performance and trade processing. Our solutions include real-time risk management tools, comprehensive exchange systems and robust trading systems with extensive market connectivity.

We work in partnership with our customers to deliver robust systems that align with their business strategies – and have done since our foundation in 1994.

The world's leading banks, trading houses, hedge funds and professional traders rely on Patsystems to facilitate the electronic trading of derivatives, FX, energy and other asset classes.

Highlights

Financial Highlights

- > Total revenue £22.1 million (2009: £22.1 million)
- > Adjusted pre-tax profit at £3.8 million (2009: £3.9 million)*
- > Cash and cash equivalents increased to £9.3 million (2009: £8.9 million)
- > Proposed full year dividend increased 29% to 0.55p per share (2009: 0.425p per share)

*adjusted for share option costs, marking to market of derivatives used to hedge cash flows and amortisation of intangibles other than internally developed software

Operational Highlights

- > Continued expansion into new growth markets with sales success for exchange offering in Argentina and Vietnam
- > Hosting centres established in Chicago, Hong Kong, Tokyo, Singapore and Sydney to deliver a fully-managed Application Service Provider ('ASP') to existing and new customers
- > Business' global ASP offering promoted as Patsystems XConnect making anticipated contribution to trading systems revenue growth in 2011
- > Bursa Malaysia Derivatives selected Patsystems as the provider of its new order management system

Overview

Global Opportunities

Patsystems operates from a global network of offices covering all major derivatives trading centres.

With connectivity to over 60 exchanges and a network of more than 50 customers throughout Europe, the Middle East, the Americas and Asia Pacific, Patsystems enables over 10,000 traders to transact in the global derivatives market every month.

Exchange Connectivity Overview

North America

With strategically located offices in Chicago and New York, Patsystems provides low-latency access to some of the world's largest futures exchanges.

Central and South America

Patsystems provides access to Latin America with connectivity to exchanges such as the Mexican Derivatives Exchange and BM&FBOVESPA.

Europe

From London to Paris, Brussels to Madrid, Patsystems offers connectivity to numerous leading futures exchanges throughout Europe.

Africa and the Middle East

Patsystems provides access to some of the leading exchanges in Africa and the Middle East including the Turkish Derivatives Exchange ('TurkDEX') and the South African Futures Exchange.

Asia Pacific

Patsystems' leading position within Asia Pacific is the result of over 10 years' investment in the region and extensive connectivity to futures exchanges in Australia, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan and Vietnam.

Key Customers

As our customers expand into new and emerging markets, they naturally look to Patsystems as a key partner with our global presence, easily deployable software and extensive exchange connectivity.





Overview

Product Range



Trading Systems

Patsystems' robust and scalable trading solutions range from plug-and-play modules that address a specific issue to complete high performance trading systems with extensive global access to derivatives exchanges and clearers.

Every day the world's leading banks, Futures Commission Merchants ('FCMs'), trading houses and professional traders rely on Patsystems' trading solutions for electronic trading and trade processing of futures and options.

Front-End Trading Tools

Patsystems offers a choice of two proprietary front-end trading applications: J-Trader and Pro-Mark. J-Trader is easy-to-use and widely distributed, making it the ideal front-end trading application. Pro-Mark is Patsystems' premium front-end for professional traders. Pro-Mark is ideal for complex, high-volume trading with a wide range of advanced functionality. Both front-ends can be easily deployed over the internet.

For traders who wish to develop their own front-end trading application, Patsystems offers our FIX Trading Gateway and proprietary Application Programming Interface ('API'). Both the FIX and proprietary API allow users to benefit from our powerful order routing engine and market connectivity.

Market Connectivity

Patsystems' extensive market connectivity delivers a major advantage to our customers. Connecting to over 60 exchanges globally, Patsystems provides access to a broad range of derivatives products, giving customers the choices they want.

Customers can access the exchanges directly or through Patsystems' XLink capability. XLink is Patsystems' unique software solution that enables customers to leverage one another's exchange memberships.

System Architecture

The foundation of Patsystems' trading solution is a powerful order management system, which facilitates high-speed order routing and robust throughput with low-latency impact. The core system is highly scalable, with the ability to support any number of users. The trading system is managed centrally with Patsystems' user-friendly risk management and administration tool.

Traditionally, our trading systems have been installed at each client site, with each client managing its own infrastructure. However, Patsystems now offers a fully-managed Application Service Provider ('ASP') model, Patsystems XConnect. Patsystems

Futures and options brokers, exchanges and other intermediaries deploy our technology to thousands of end users who range from independent traders to global financial institutions.

USP: Market connectivity, scalable architecture, ease and cost of deployment

XConnect provides the full benefits of the Patsystems trading environment without the requirement for clients to invest in a technology infrastructure or technical support resources.

Risk Systems

Patsystems provides a standalone, multi-asset class risk management system that calculates margin and profit and loss in real-time. This real-time risk system, Risk Informer, is currently in use at 10 financial institutions.

Business Benefits

Risk Informer integrates seamlessly with diverse data sources and can be extended to support all asset classes within the institution's portfolio.

Benefits include:

- Real-time margin calculation for exchange-traded futures and options, equities, CFDs and FX using official methods sourced from the relevant organisations
- Ability to integrate stand-alone analytical modules
- Ability to monitor intra-day risk for Direct Market Access clients
- Seamless integration with multiple data sources, including trading systems and market price feeds, exchange feeds and client back office systems
- 'Slice and dice' analysis of trading data
- Real-time processing and analysis of new data
- Flexible 'what if' scenarios to analyse the impact of specific events on a client's risk profile, such as proposed trades or anticipated price changes
- Event-driven alert function against administrator defined margin limits, generating pre-defined messages depending on the severity of the alert. Alerts can be generated in email and text format

USP: Real-time, multi-asset class, platform-independent

Exchange Systems

Patsystems' exchange and back office solutions are built on proven technology with a track record for performance and reliability. The applications are highly customisable as well as easy and cost effective to support.

Patsystems' exchange technology is built around the Patsystems Matching Engine. It has been implemented across seven exchanges globally, including TurkDEX and the Indonesian Commodity and Derivatives Exchange. Banks and brokerage firms use Patsystems' back office technology to facilitate back office reporting and clearing requirements.

A Comprehensive Offering

Patsystems presents a truly unique offering because of our market-leading position within the trading and risk management industry. When combined with Patsystems' trading and risk management modules, Patsystems can provide a comprehensive end-to-end exchange solution that automates all steps in the trade cycle from front to back office.

USP: Comprehensive end-to-end solution from a single vendor

Overview

Chairman's Statement

Positioned for future growth



"2010 was a year with a mixed performance across the business. We saw some notable sales successes, such as the new customers for our exchange system offering, tempered against deferred sales opportunities for our risk product and marginal growth within our trading systems business.

The Group continues to demonstrate continued cash generation and profit resilience and we expect this to continue in 2011 and beyond. The continued payment and growth in the level of the dividend is an important statement by the Board of our continued confidence in the growth prospects for the business.

Patsystems commences 2011 with an encouraging sales pipeline that will provide opportunity to expand our geographical presence and grow the revenues for each of our product offerings."

2010 was a year with a mixed performance across the business. We saw some notable sales successes, such as the new customers for our exchange system offering, tempered against deferred sales opportunities for our risk product and marginal growth within our trading systems business. I am pleased that the business has continued to expand into new growth markets with sales success for our exchange offering in Argentina and Vietnam.

In 2010, Patsystems established hosting centres in Chicago, Hong Kong, Tokyo, Singapore and Sydney in order to deliver a fully-managed Application Service Provider ('ASP') offering to both existing and new customers. Further investment will be made in 2011 in establishing hosting centres in London and São Paulo and implementing a global wide-area network between the centres.

The business' global ASP offering is being promoted as Patsystems XConnect and is expected to be an important contributor to trading systems revenue growth in 2011.

Financial Results

Adjusted pre-tax profit (being profit before tax after adjusting for share option costs, marking to market of derivatives used to hedge cash flows and amortisation of intangibles other than internally developed software) for the full year ended 31 December 2010 was £3.8 million compared to £3.9 million in 2009. Adjusted pre-tax profit is the definition of profit used by analysts to measure the performance of the Group.

Diluted earnings per share ('EPS') on this basis was 2p per share, the same as last year. Details of these calculations are set out in the Earnings Per Share section of the Finance Director's Review on pages 12 to 13.

Profit before income tax for the full year ended 31 December 2010 was £3.2 million compared to £4.5 million in 2009. Diluted EPS was 1.4p per share (2009:1.8p).

Turnover for the year amounted to £22.1 million (2009: £22.1 million) of which £13.7 million (2009: £13.2 million) is annuity revenue that derives from a combination of the provision of trading

screens and market access on a 'software-as-a-service' rental model. When combined with revenue from contracted support and maintenance of our order routing technology, this means 77% of the turnover is on a recurring annual basis (2009: 82%).

Geographical Review

Asia Pacific

The Asia Pacific region had a positive year with several significant new sales wins. The Patsystems' Exchange and Trading System was adopted by the newly launched Vietnamese Commodity Exchange ('VNX') in Ho Chi Minh City and Bursa Malaysia Derivatives selected Patsystems as the provider of its new order management system. In addition NewEdge, a major existing customer and a number of new customers across the region adopted the Patsystems XConnect ASP solution. Sales in Asia Pacific account for 39% (2009: 37%) of Group revenues.

Europe

In Europe, we continued to grow the business during the year despite the increasingly long sales cycles. The long-term project to replace the exchange, risk and trading systems for TurkDEX continued throughout 2010 and is progressing to plan. Macquarie Bank Limited in Europe selected Patsystems' post trade risk system, Risk Informer, for their exchange traded derivatives business. Sales in Europe account for 35% (2009: 34%) of Group revenues.

Americas

The Americas region had a challenging year with the revenue contribution from existing clients failing to recover from 2008 levels and the loss of £0.8 million revenue from Lehman Brothers Inc. The sales campaign into South America was rewarded by Mercado a Término de Buenos Aires ('MATba') selecting Patsystems as its key technology provider as it prepares to extend electronic trading capability to its existing open outcry operations. Sales in the Americas account for 26% (2009: 29%) of Group revenues.

Dividend

Patsystems has demonstrated continued cash generation and profit resilience and we expect this to continue in 2011 and beyond. As a result of this, together with our strong year end cash position, the Board is recommending the payment of a second interim dividend of 0.35p based on the results for 2010 as a whole, bringing the total dividend for the year to 0.55p per share, compared to a total of 0.425p for 2009. This gives a year on year growth of 29% in our dividend and the dividend remains well covered at 4 times. The continued payment and growth in the level of the dividend is an important statement by the Board of our continued confidence in the growth prospects for the business.

The second interim dividend will be paid on 8 April 2011 to shareholders on the register as at 4 March 2011.

Board, Management and Staff

On behalf of the Non-Executive Directors, I would like to thank the Executive Directors, the senior management team and all the Patsystems' staff for all their hard work and dedication during the year.

Steve Sparke resigned from the Board during the year due to increasing time commitments from his other executive business interests and on behalf of the Board I would like to thank Steve for his support and contribution since he joined the Board in 2006.

I am delighted to welcome Stewart Douglas-Mann back to the Board; Stewart retired from the Board in 2007 but has been operating as a consultant to the Board for the intervening period. On a personal note I should also like to thank John Priestley for his support during the year, his commitment and dedication to the business has been greatly appreciated.

Customers and Shareholders

Many of our customers have endured significant market and business change during 2009 and 2010 and as such I am grateful for their ongoing support and for providing opportunities that enabled Patsystems to continue develop and grow its product and service propositions.

I would also like to thank our shareholders for their continued support during 2010.

Future

In 2011, Patsystems expects that the significant investment in our global ASP offering, Patsystems XConnect, will stimulate recurring revenue growth within our trading systems business. We expect to see further opportunities to grow our exchange systems business across the globe with the additional functionality we developed as part of the project with TurkDEX. A number of opportunities exist to sell our risk product into major global banks, but as was experienced in 2010 a degree of caution must be exercised due to the long decision timescales and the change of strategic priorities that can take place within global banks during the product procurement process.

With offices in Singapore, Hong Kong, Sydney and Tokyo, Patsystems is well placed in the Asian and emerging market areas to provide end-to-end solutions for commodity futures exchanges and promoting the Patsystems XConnect offering for trading system adoption. Within established markets promotion of our post-trade risk offering will continue and offering our trading solutions by way of Patsystems XConnect.

Patsystems commences 2011 with an encouraging sales pipeline that will provide opportunity to expand our geographical presence and grow the revenues for each of our product offerings.

Richard Last
Chairman, Non-Executive Director
7 February 2011

Business Review

Chief Executive's Report

Developing new and existing markets



"We saw continued success for sales of our exchange systems business in 2010 and it is our opinion that Patsystems currently has a unique proposition in the global marketplace with our ability to provide exchange matching, clearing, trading and risk capability as an integrated package."

I am particularly delighted by the exchange system sales to both MATba and VNX, demonstrating the transformation of our exchange systems business from being materially dependent on small Japanese exchanges to a business with global appeal. With the integration of our matching engine, risk offerings and trading solution, I believe there will be significant opportunities for exchange solution sales in 2011 and beyond.

It was disappointing that a material Risk Informer opportunity that was significantly progressed through the procurement process did not conclude in 2010 and as such, risk system sales did not achieve the level we had targeted. However, we continue to have a number of exciting sales opportunities for the product and a range of new add-on modules to sell in 2011.

Though it was detrimental to the 2010 results, I believe it is the correct strategy for revenue from exchange system sales to include a volume related charge rather than a sole upfront perpetual licence, thereby allowing Patsystems to share in the benefits of the exchange's future growth. If new and developing electronic trading exchanges enjoy the growth that established exchanges have enjoyed in recent years, then this judgement will be vindicated by an anticipated increase to Patsystems' recurring revenues in 2012 onwards.

2010 Business Objectives

At the start of 2010, we set four objectives for the business and overall I am satisfied with our progress against these objectives, these are reported on as follows:

Solidify our position as the premier provider of risk margin systems within the world's top global banks

In 2010, we partially achieved this objective, with Macquarie Bank Limited adopting the product and J. P. Morgan extending its use of the product. As previously reported a well progressed opportunity with a third global bank did not progress, to the detriment of our 2010 results.

Extend our sales penetration in new countries with additional sales in Malaysia, Indonesia and Brazil

The business had sales success in Malaysia, to Bursa Malaysia Derivatives, and also in Vietnam and Argentina. The Indonesian Commodity and Derivative Exchange which adopted the Patsystems exchange solution in 2009 has enjoyed a successful first period of trading in 2010 with traded volumes growing steadily. We expect that the anticipated success in Brazil will be achieved once our Patsystems XConnect hub is deployed in São Paulo.

Deliver hosted services to new and existing customers within all regions that we operate

Patsystems XConnect hubs in Tokyo and Hong Kong are live with a total of 6 customers. Patsystems XConnect hubs in Singapore and Chicago went live in the autumn of 2010 with NewEdge, one of our existing major customers.

Continue the 2009 sales success for our exchange systems offering.

The exchange system sales to MATba and VNX during 2010 continue to demonstrate the global potential of our exchange systems offering.

Revenue Streams

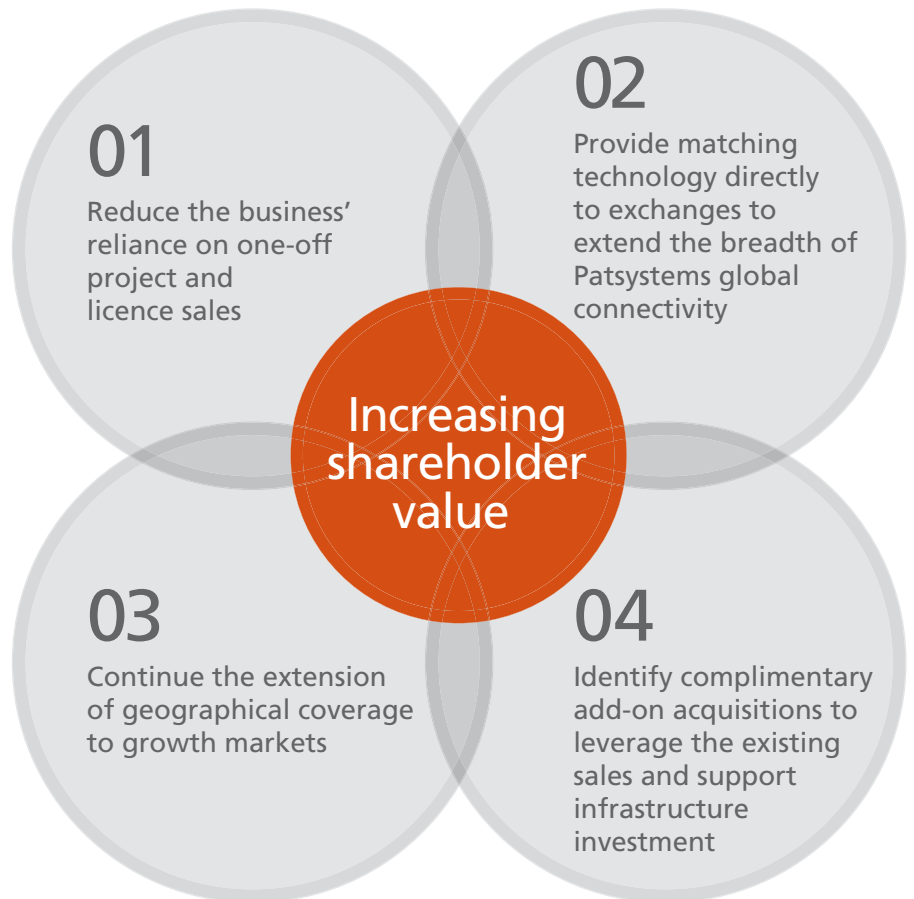
The Group operates in one product line, that of the supply of software to financial institutions and consists of the following revenue streams:

Trading Systems

The investment in Patsystems XConnect is a key strategy in supporting the growth plan for increasing revenues from our trading systems business. Patsystems XConnect will leverage Patsystems XLink technology, which allows for seamless exchange connectivity and order routing between Patsystems XConnect hubs or client sites.

The Patsystems XConnect hubs planned for deployment in 2010 were all implemented on schedule apart from São Paulo where local procurement challenges have deferred this to 2011.

Our Strategy for Growth



To support the deployment of Patsystems XConnect in North America, Patsystems has selected Interactive Data 7ticks to provide ultra-low latency networking services and exchange connectivity. A selection process is under way to identify a partner to provide global WAN infrastructure connectivity.

It is expected that capital investment in excess of £0.5 million will be made in 2011 to support Patsystems XConnect deployment globally.

Our replacement order management system, Global Trading and Risk Alert, has been deployed to a number of customers. It is expected that further deployments of our new core trading system, Global Trading, will take place throughout 2011, commencing with the Patsystems XConnect hub in London.

Exchange Systems

As previously stated, we saw continued success for sales of our exchange systems business in 2010 and it is our opinion that Patsystems currently has a unique proposition in the global marketplace with our ability to provide exchange matching, clearing, trading and risk capability as an integrated package.

We believe that there are opportunities across the globe for smaller or newly established commodity or financial futures exchanges that want a complete end-to-end technology solution and wish to source this from a single supplier.

Based in Buenos Aires, MATba is a futures and options commodity exchange specialising in wheat, corn and soya. While the exchange has experienced steady demand over the

Business Review

Chief Executive's Report continued

MATba leverages Patsystems' technology to achieve its future growth plans

After an extensive global selection process, the Mercado a Término de Buenos Aires ('MATba') has selected Patsystems as its key technology provider as it prepares to add electronic trading capability to its existing open outcry operations.

Based in Buenos Aires, MATba is a futures and options commodity exchange specialising in wheat, corn and soya. While the exchange has experienced steady demand over the past few years, MATba acknowledges that they could experience increased volume with an electronic offering.

Patsystems will provide MATba with a complete exchange system that includes straight through processing and matching supported by the Patsystems Matching Engine. The Patsystems Matching Engine is readily scalable and can fully accommodate the anticipated future growth of MATba.

MATba will also utilise Patsystems pre-trade risk management module and front-end trading applications, Pro-Mark and J-Trader. Patsystems' front-ends are user-friendly, feature-rich applications that can be easily deployed to MATba participants over the Internet, WAN, LAN or leased lines. Ease of deployment was a key consideration for MATba as they aim to make their market more accessible to local and international participants.

past few years, MATba recognise the Exchange could experience increased volume by extending electronic trading to its current open outcry offering.

In addition to the Patsystems Matching Engine, MATba will also utilise Patsystems' J-Trader, which will be deployed to MATba participants over the internet.

VNX was officially introduced at a ceremony in Ho Chi Minh City on 20 October 2010 by the SME Securities Joint Stock Co and by Trieu Phong Gold International Joint Stock Co. VNX will initially trade in steel, rubber, and coffee which are some of Vietnam's biggest exports. It will also provide an additional financial tool for producers and traders to protect themselves against price fluctuation risks.

Patsystems' exchange solution will facilitate the integration of electronic trading between domestic producers and traders and provide access to international customers interested in Vietnam's commodity markets.

Our project with TurkDEX continued during 2010 and phase 1 is expected to go live in the first half of 2011; a subsequent phase 2 will be deployed later in 2011 or early in 2012. During the year the Indonesian Commodity and Derivatives Exchange successfully launched their second product, a crude palm oil contract, which will act as a reference point for Indonesia's local commodity producers. Indonesia is one of the world's largest producers of crude palm oil.

Risk Systems

During 2010, Prudential Bache, J. P. Morgan and Macquarie Bank Limited deployed Patsystems' post-trade risk margining product, Risk Informer. Risk Informer is also a key component of a feature-rich clearing and risk solution that will be implemented at TurkDEX's clearing bank in Turkey as part of the overall project with TurkDEX.

In 2011 we expect to sell Risk Informer services and license new modules to existing customers, as well as sell new Risk Informer licences to other global and local financial institutions.

The new modules that will be promoted in 2011 include scenario analysis with the capability to simulate possible market or price shocking conditions as well as new options risk capability that will provide a view of option positions, prices and Greeks based upon the movement of the underlying contract.

Staff and Operating Structure

Overall staff numbers have remained broadly similar to 2009 with 161 employees at the 31 December 2010 compared to 162 on 1 January 2010.

During the first quarter of 2011, the operating structure of Patsystems will be completely reviewed with the objective of removing hierarchy, improving information dissemination and increasing operating margins.

As a first part of this process the management structure of the operations functions has been revised and the revised team will now review the remainder of the operations department.

The objective for the business is to improve operating margin by 2% based on our 2010 results.

Business Strategy

Patsystems' business objective is to be the external partner of choice for investment banks, futures clearing merchants and exchanges for the provision of electronic trading, trade matching and risk management technology.

The growth strategy of the business has four components:

- Reduce the business' reliance on one-off project and licence sales
- Provide matching technology directly to exchanges to extend the breadth Patsystems global connectivity
- Continue the extension of geographical coverage to growth markets
- Identify complimentary add-on acquisitions to leverage the existing sales and support infrastructure investment

The acquisition strategy is to identify and acquire businesses that provide complimentary technology and where shareholder value can be created by selling that technology through the Patsystems global sales organisation.

A number of appropriate targets were identified in 2010, but an appropriate acquisition price could not be agreed that would have created value for Patsystems' shareholders.

Business Objectives and Outlook

Our key objectives for 2011 are as follows:

- Grow the recurring revenue base by growth of the Patsystems XConnect ASP offering
- Extend the Risk Informer customer base and licence the new modules to existing customers
- Continue the 2010 sales success for our futures exchange system product in all markets
- Revise our internal structure to increase the operating margin

Trading subsequent to the year end has progressed in line with our expectations and we remain confident of fulfilling our growth aspirations across all areas of the business.

David Webber
Chief Executive
7 February 2011



Patsystems selected by the Vietnam Commodity Exchange

The newly established Vietnam Commodity Exchange ('VNX') was officially introduced at a ceremony in Ho Chi Minh City on 20 October 2010. One of the key objectives of the exchange is to create a marketplace for Vietnam's popular commodity products, steel, rubber, and coffee – some of Vietnam's biggest exports. It will also provide an additional financial tool for producers and traders to protect themselves against price fluctuation risks.

VNX will utilise Patsystems' complete exchange solution. This will include Patsystems' trade matching engine, clearing and settlement platform, pre-trade risk management module and the front-end execution platform. Patsystems' exchange solution will facilitate the integration of electronic trading between domestic producers and traders, and provide access to international customers interested in Vietnam's commodity markets.

Business Review

Finance Director's Review

Sustaining shareholder returns



Adjusted profit at £3.8 million is consistent with that achieved in 2009 and operating cash flow reduced to £2.8 million from £4.3 million in 2009. Cash at bank stood at £9.3 million on 31 December compared to £8.9 million the previous year.

Adjusted profit removes volatile or potentially volatile non-cash items to show an underlying level of profitability that enables the results for the business to be compared on a consistent basis for each accounting period. The most volatile and material item over the past three years has been the adjustment in respect of the marking to market of derivatives that are used to hedge overseas foreign currency cash flows. This year the adjustment is a credit to the profit and loss account of £0.3 million whilst in 2009 the adjustment was a reduction of £1.0 million, a change between the years of £1.3 million.

The other adjustments made to the reported pre-tax profit on ordinary activities are to add back the charge or credit for; (i) share option costs; and (ii) amortisation of intangibles other than those charges for internally developed software. The table in the Earnings Per Share section below details the adjustments made to operating profit in both this and the prior year.

Revenue

Total revenue was £22.1 million (2009: £22.1 million).

Regional Analysis Asia Pacific

Revenue in this region grew by 4% from the prior year to £8.5 million. Underlying revenue growth in this region remains strong at 25% after adjusting for the revenue lost as a result of the Tokyo Grain Exchange winding down.

Europe

Revenue in Europe grew by 4% to £7.8 million from £7.5 million in the prior year.

Americas

Revenue declined in the Americas by 9% to £5.8 million from £6.4 million in the prior year.

	2010 £'000	2009 £'000
Profit for the year attributable to equity holders of the Company	2,551	3,362
Income tax expense	687	1,124
Profit before income tax	3,238	4,486
Share option costs	60	261
Movement in fair value of hedging instruments	338	(1,029)
Amortisation of intangibles	117	203
Adjusted pre-tax profit	3,753	3,921
Current taxation	(99)	(249)
Adjusted post-tax Profit	3,654	3,672
	Number	Number
Weighted average number of shares	186,146,310	180,628,990
Effect of dilutive share options	1,170,581	1,628,191
	187,316,891	182,257,181
Adjusted EPS	2.0p	2.0p
Adjusted diluted EPS	2.0p	2.0p

Revenue Stream Analysis**Trading Systems**

Trading systems revenue was consistent with that achieved in 2009 at £17.5 million compared to £17.6 million.

Exchange Systems

Exchange systems revenue was also consistent with the 2009 performance at £2.9 million compared to £3.0 million.

Risk Systems

Revenue from the Risk Systems business at £1.7 million was up £0.2 million from £1.5 million last year.

Operating Expenses

Reported operating expenses of £18.4 million were £1.2 million more than in 2009. However, included in operating costs for 2009, and as noted above, was a gain in the mark to market value of the derivatives used to hedge the Group's cash flow of £1 million compared to a charge of £0.3 million this year. Underlying total costs therefore reduced by £0.1 million. The movement between 2009 and 2010 for the significant cost categories are detailed below:

Staff costs decreased by £0.6 million as a result of a reduction in our London head count and no bonus payments being made to the Group's senior management. The reduction in direct staff costs was somewhat offset by an increase of £414k in the costs of our Chinese Development Centre as the number of contractors working for us there has grown over the year from 17 to 30.

At 31 December 2010 the Group had 161 permanent staff (2009: 162), 4 contractors (2009: 3) and 30 staff in the Chinese Development Centre (2009: 17).

Property costs decreased by £0.1 million primarily because the 2009 costs included the costs associated with the relocation of the London office from the Cottons Centre to Riverside House.

Depreciation and amortisation costs increased by £0.15 million comprising of an increase of £0.15 million in amortisation of capitalised software and an increase of £0.1 million in the depreciation of tangible assets offset somewhat by a reduction in the amortisation of other intangibles of £0.1 million.

Profit Before Income Tax

Profit before income tax was £3.2 million (2009: £4.5 million).

Taxation

The Group has tax losses carried forward of £16.6 million and will not be paying tax on its UK profits for a number of years. Small amounts of withholding tax may or may not arise from time to time depending on the geographical locations of customers with whom the Group does business.

The current tax charge shown on the face of the income statement of £0.10 million comprises a corporation tax charge in Japan of £0.02 million (2009: £0.22 million), a minimum tax payment in the US of £0.02 million (2009: £0.02 million) and withholding tax of £0.06 million (2009: £0.01 million). The deferred taxation charge of £0.59 million (2009: £0.88 million) arises largely in respect of the use of trading losses in the year net of research and development ('R&D') tax credits relating to prior years recognised as deferred tax assets this year.

Retained Profit for the Year

Retained profit for the year was £2.6 million (2009: £3.4 million).

Earnings Per Share

Basic EPS has fallen to 1.4p from 1.9p and diluted EPS has fallen to 1.4p from 1.8p last year.

The Board monitors the Group's EPS performance by reference to adjusted pre-tax profit less current tax. Deferred tax is excluded from this measure because of its potential volatility. The adjusted EPS calculations on this basis are shown opposite.

77% of Patsystems' revenue is recurring in nature and, in stark contrast to many technology companies, this gives a level of guarantee for a minimum level of operating profit for the business on an annual basis.

Business Review

Finance Director's Review continued

Intangible and Tangible Fixed Assets Goodwill

Goodwill remains unchanged from 2009 at £3.3 million. The majority of this balance (£3.0 million) relates to the acquisition of Tamesis in 2005. As previously discussed Risk Systems continue to be a key element of our business.

Intangible Assets

During the year the Group expended £0.8 million on intangible assets (2009: £0.7 million). This spend included £0.6 million of capitalised development costs in respect of new products that will generate revenues in future years. These costs will be amortised over three to five years from the date of completion. The amortisation period reflects the expected life of the particular asset capitalised.

Property, Plant and Equipment

During the year the Group purchased fixed assets totalling £0.9 million (2009: £0.6 million). The additions comprised mainly of computer equipment for the establishment of our ASP offerings in Singapore, Hong Kong, Sydney and Chicago.

Current Assets

Trade Receivables

Trade receivables have increased marginally by £0.3 million to £2.9 million from £2.6 million. During the year the Group has not suffered any significant bad debt write-offs.

Prepayments and accrued income have grown by £1.4 million to £3.7 million mainly as a result of the TurkDEX project where revenue is recognised on the basis of percentage completion of the project and two new contracts that were entered into in the last quarter of the year.

Financial Assets/Liabilities – Derivative Financial Instruments

Financial assets represent the 'marked to market' value of derivatives used to hedge the Group currency exposures. The derivatives used are forward contracts and currency options. These derivatives are marked to market monthly and the resulting 'profit or loss' is taken to the income statement. In the current year a total cost of £0.3 million was charged to the income statement. (2009: £1.0 million credit).

Current Liabilities

Current liabilities at £3.0 million compared to £3.2 million in the prior year are broadly similar.

Cash and Treasury

Cash and cash equivalents increased to £9.3 million from £8.9 million in 2009.

The Group generated net cash inflows from operating activities of £2.8 million (2009: £4.3 million). £1.7 million (2009: £1.3 million) was invested in intangible and tangible assets, with dividends of £0.9 million (2009: £0.7 million) being paid during the year.

The Group is exposed to foreign currency risk on sales, purchases and cash balances that are denominated in a currency other than Sterling. The principal currency giving rise to this risk is the US Dollar. In order to smooth the impact of significant movements in exchange rates the Group has a policy to carry forward cover for 75% of US\$/£ net anticipated exposure for 12 months forward. That level of cover is in place and is comprised of a mixture of forward contracts and options. The average US\$/£ exchange rate used in the 2010 income statement was 1.54 (2009: 1.57). The average rate of the hedges in place for 2011 is 1.58. The year end US\$/£ exchange rate was 1.55 (2009: 1.59).

	97.720	699
	97.715	933
260	18	97.718
660	97.705	
874	97.700	
669	97.695	
560	97.690	
258	97.685	
322	97.680	
138	97.675	

Business Risks

The principal business risks remain the same as in the prior year and these are detailed below.

Competition

The Group operates in a growing but competitive market. There are three major software suppliers in the global electronic trading systems market for futures and options, of which Patsystems is one. There are many smaller companies who supply screens but not market connectivity. In such a market there is always a risk that customers could move to other competitors and there is always downward pressure on margins. Patsystems mitigates this risk by supporting its brands with appropriate marketing activity and by consistently extending its market connectivity as well as improving its software, customer support and customer care.

Bad Debts

The deterioration of the global economic climate that began in 2008 continued in 2009 and abated somewhat in 2010 has continued to affect the financial services sector. As the majority of our clients are financial services organisations the Group considers there is a risk that a client could experience financial difficulties and not be able to pay its debts as they fall due. In order to mitigate this risk Patsystems reviews all client accounts on a monthly basis and takes appropriate action to keep accounts within payment terms.

Customer Consolidation

Consolidation within the financial services industry has occurred over the past few years and further consolidation remains a risk. Where consolidation takes place the risk to the Group's business is typically to the revenues associated with market connectivity and support and maintenance. We mitigate this risk by actively adding new customers, products and asset categories to our portfolio.

Revenue Profile

77% of Patsystems' revenue is recurring in nature and, in stark contrast to many technology companies, this gives a level of guarantee for a minimum level of operating profit for the business on an annual basis.

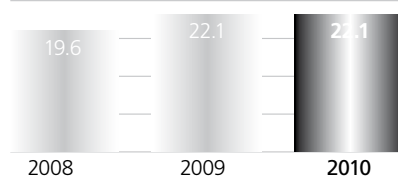
However, with products such as our Risk offerings and our Exchange Systems playing an integral role in the Group's future growth expectations and the significant revenues from these

opportunities being non-recurring in nature, the propensity for organisations to defer technology investments during tougher economic climates is a risk to our business.

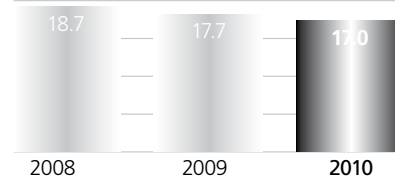
Martin Thorneycroft
Finance Director
7 February 2011

Key Performance Indicators

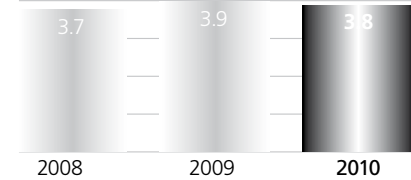
Revenue – £m



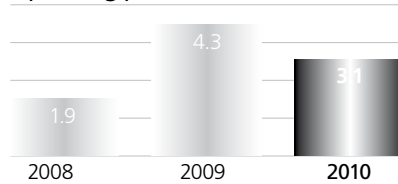
Adjusted profit – percentage of sales



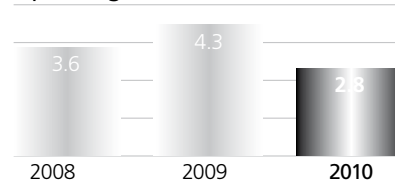
Adjusted pre-tax profit – £m



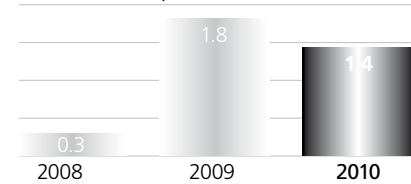
Operating profit – £m



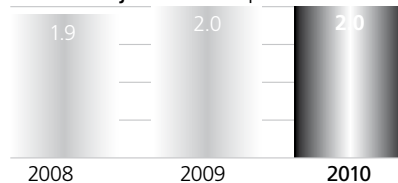
Operating cash flow – £m



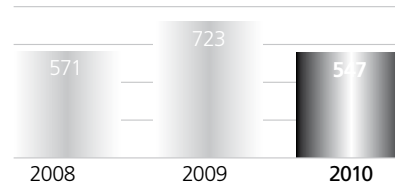
Diluted EPS – p



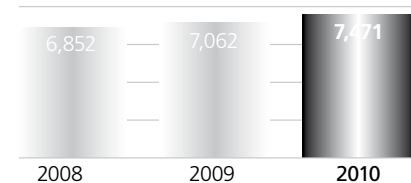
Diluted adjusted EPS – p



Pro-Mark screens deployed at year end – number



Average active users during the year – number



Business Review

Our Board



1 Stewart Douglas-Mann, 2 David Webber, 3 Richard Last, 4 Martin Thorneycroft and 5 John Priestley.

Richard Last
Chairman, Non-Executive Director

Age 53.

Richard is Chairman of Arcotech Group, a provider of IT solutions for the financial services sector, of Parseq plc a provider software and BPO solutions, both are listed on AIM and the British Smaller Technology Companies VCT 2 plc, a fully listed Venture Capital Trust. In addition Richard is Chairman of CSE Global (UK) Limited; the UK subsidiary of the Singapore Stock Exchange listed IT, Communications and Controls Systems Group, CSE Group Limited. Richard also sits on the Boards of Corero plc, an AIM listed IT solutions provider and Lighthouse Group plc, an AIM listed financial services group as well as a number of private businesses. Richard, a Fellow of the Institute of Chartered Accountants, holds a BA (Hons) from Sheffield University.

David Webber
Chief Executive

Age 45.

David was appointed Chief Executive of Patsystems in January 2006. He was formerly Chief Executive of AttentiV Systems Group, where his business leadership saw the Company through significant expansion by both organic growth and acquisition. He led the

management buyout, subsequent AIM flotation of the business and was retained as Chief Executive when AttentiV Systems Group plc was acquired by TietoEnator in May 2005. David, a member of the Institute of Chartered Accountants since 1989, holds a BSc (Economics) from the London School of Economics.

Martin Thorneycroft
Finance Director

Age 49.

Martin joined Patsystems as Finance Director in July 2004. He was previously Finance Director of Profile Media Group plc. Martin, a member of the Institute of Chartered Accountants having qualified with Ernst and Young in 1986, holds a B. Com. from Birmingham University.

John Priestley
Non-Executive Director, Chairman of the Audit Committee

Age 61.

John has over 30 years' experience in the software and services sector and in 2003 concluded a 13 year career with British Telecommunications as Director of Business Development for Syntegra. Previously, he was a Director of Kapiti and a Divisional Director with Hoskyns.

Stewart Douglas-Mann
Non-Executive Director, Chairman of the Remuneration Committee and Nomination Committee

Age 73.

Stewart was a partner of a City law firm before moving into investment banking in 1972. Prior to his retirement in 2003 he was a senior Director of Corporate Finance at Investec Bank. Stewart has held senior positions at Charterhouse Bank and Hoare Govett and was a Managing Director of the London Stock Exchange. Stewart has also been a Non-Executive Director of a number of listed companies. Stewart holds a BA (Oxon).

Governance

Directors' Report

The Directors present their report for Patsystems Plc and the audited financial statements for the year ended 31 December 2010.

Principal Activities

The principal activities of the Group are the development, distribution and support of software enabling:

- the electronic trading of financial products on global trading exchanges
- real time trade capture, valuation and risk management for the structured finance market

Results and Dividends

The profit on ordinary activities attributable to shareholders after taxation amounted to £2,551,000. (2009: £3,362,000).

The proposed dividend for the year is detailed in the Chairman's Statement on page 7.

Review of Business and Future Developments

The Directors are pleased with the Group's performance during the year and its position at 31 December 2010. The Directors are confident that performance will continue to improve in 2011 and beyond.

The review section of this Report contains a detailed assessment of the business and future projects.

Reviews of the risks faced by the business are detailed in the Chief Executive's Report and the Finance Director's Review. The Finance Director's Review also details the Key Performance Indicators ('KPIs') for the year.

Proceeds from Shares Issues During the Year

£161,000 was received in proceeds from the exercise of share options during the year ended 31 December 2010 (2009: £682,000).

Substantial Shareholdings

On 2 February 2011, the following holdings of 3% or more of the issued share capital of Patsystems Plc were known to the Company:

Beneficial owner, as notified to the Company	Number of shares	%
ION Trading Ireland Limited	55,051,191	29.49
Brewin Dolphin Limited	15,714,675	8.42
Herald Investment Management Limited	13,000,000	6.96
Cazenove Capital Management Limited	12,176,615	6.52
Wells Fargo Advisors	11,562,500	6.19
Kabouter Management LLC	8,649,000	4.63
Ignis Asset Management Limited	6,177,544	3.31

Directors

The Directors of the Company, together with those who served during the year, are as follows:

Executive Directors	Non-Executive Directors
D Webber	R Last
M Thorneycroft	J Priestley
	S Douglas-Mann – appointed 10 May 2010
	S Sparke – resigned 10 May 2010

Directors and their Interests

Ordinary shares of 1p each in Patsystems Plc	2 February 2011	31 December 2010	31 December 2009
D Webber	875,000	875,000	875,000
M Thorneycroft	68,000	68,000	68,000
R Last	786,886	786,886	786,886
J Priestley	168,684	168,684	91,017
S Douglas-Mann	180,000	180,000	100,000

Details of the Directors who have an interest in share options are disclosed in the Remuneration Report.

Save as disclosed in this Report and note 28, there were no other contracts subsisting during or at the end of the financial year in which a Director of the Company is or was materially interested.

Employee involvement

The Directors recognise the importance of employee involvement established by good communications and working relationships. The decentralised nature of the Group's activities necessitates that the practical application of this policy is the responsibility of local management in a manner appropriate to their circumstances.

Employment policies

The Group is committed to the terms of the Codes of Practice for the elimination of all or any discrimination and to the promotion of equality of opportunities in employment.

It is Group policy to afford equal opportunities to all employees and job applicants. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely by merit.

It is also Group policy to encourage and assist in the employment, training, re-training and career development of disabled persons where possible, having regard to their suitability for a particular vacancy and the nature of the Group's activities. In the event that employees become disabled during employment the Group will where possible continue their employment and arrange appropriate training.

Responsibility for monitoring the effective working of these policies is vested in Martin Thorneycroft, the Finance Director.

Financial instruments and financial risk management

The Group's activities expose it to a variety of financial risks and it has developed and operates an overall risk management programme that recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is under the control of the Finance Director and is carried out centrally for the Group in compliance with policies approved and monitored by the full Board. The Board regularly reviews the effectiveness of these policies examining specific areas including foreign exchange risk, interest

Governance

Directors' Report continued

rate risk, credit risk and the extent to which financial instruments are being used to hedge certain risk exposures.

Details of the Group's exposures to market, credit and liquidity risks are set out in note 3 to the financial statements.

Research and Development

During the year the Group continued to invest in R&D. All expenditure, whether incurred through internal staff costs or through third party suppliers, relating to R&D that satisfies the criteria for capitalisation under IAS 38, 'Intangible assets', is capitalised. Otherwise it is written off to the income statement in the period incurred.

Creditor Payment Policy

Given the international nature of the Group's operations, there is no standard code for the Group in respect of payments to suppliers. Operating subsidiaries are responsible for agreeing terms and conditions for their business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to provided that suppliers meet their contractual commitments.

Creditor days for the Company are 30 days.

Charitable and Political Donations

The Group made charitable contributions of £3,950 during the year (2009: £2,409). The current year donations were made to The Back-Up Trust, World Challenge and Sparks. No political donations were made in 2010 or 2009.

Disclosure of Information to Auditors

For each of the persons who were Directors at the time this Report was prepared, the following applies:

- So far as the Directors are aware, there is no relevant information of which the Company's auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Disclosure and Transparency Rules ('DTR')

The Group has complied with the DTR so far as they are applicable to AIM listed companies.

Annual General Meeting

The Notice convening the Annual General Meeting ('AGM') together with the proposed resolutions is being sent to shareholders. The AGM will be held on 19 April 2011.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group, as at the end of the year, and of the profit or loss of the Group for the year. In preparing those financial statements, the Directors are required to:

1. Select suitable accounting policies and then apply them consistently;
2. Make judgements and estimates that are reasonable and prudent;
3. State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
4. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for the maintenance and integrity of the Patsystems website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 (as amended from time to time). The Directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the Board of Patsystems Plc.



Martin Thorneycroft
Company Secretary

7 February 2011
Registered office: Riverside House,
2A Southwark Bridge Road, London SE1 9HA

Statement of Corporate Governance

The following statement of corporate governance reflects the position of the Group as at 31 December 2010.

The Board is responsible for the Group's corporate governance policy and recognises the importance of high standards of integrity, and consistently seeks to apply the principles set out in the Combined Code on Corporate Governance (the 'Code') to the extent that they are appropriate for, and applicable to, a company of Patsystems' size quoted on the Alternative Investment Market ('AIM').

Directors

Details of the dates of appointment and resignation of Directors within the year are shown in the Directors' Report. All Directors are subject to re-election within a three-year period. The roles of the Chairman and Chief Executive are separate and have been so throughout the year.

The Non-Executive Directors are considered to be 'independent' within the definition contained in the Code. The Non-Executive Directors meet, without the presence of the Executive Directors, whenever it is appropriate for them to do so.

All the Directors have access to the advice of the Company Secretary and may, in furtherance of their duties, take independent legal and financial advice at the Company's expense. They also have access to the minutes of the Board, in which any concerns expressed by them regarding matters pertaining to the Group are recorded.

While there is no formal process, the performance and effectiveness of each Director, including the Non-Executive Directors, is assessed on an on-going basis by the other members of the Board.

Board Meetings

The Board generally meets monthly and at such other times as required, and receives regular reports on a wide range of key issues including operational performance, risk management and corporate strategy.

The Board's accountability is demonstrated by the adoption of a formal schedule of matters specifically reserved to the Board for its decision concerning all key areas across the Group's activities, thereby ensuring that all major decisions affecting the Group are taken at Board level. All the Directors are free to bring any matter to the attention of the Board, at any time.

Committees

The Audit Committee and the combined Remuneration and Nominations Committee meet at least twice a year.

Audit Committee

The Audit Committee is chaired by John Priestley and comprises all the Non-Executive Directors. The external auditors, together with the Finance Director and other financial staff are invited to attend these meetings as and when required.

In accordance with its terms of reference the principal function of this Committee is to determine the appropriateness of accounting policies to be used in the Group's annual results. In addition the Committee is responsible for monitoring the independence of the Group auditors, assessing the Group's audit arrangements and the Group's system of internal controls, and reviewing the half-yearly and annual results before publication.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises all the Non-Executive Directors and is chaired by Stewart Douglass-Mann.

In accordance with its terms of reference the Committee determines the level and make-up of remuneration (including bonuses and options) of the Executive Directors and certain senior management. This also includes formulation of remuneration policy throughout the Group, embracing both share options and bonuses.

The Committee also evaluates the balance of skills, knowledge and experience on the Board and considers all new Board appointments and re-appointments against this evaluation.

The Report of the Board on Directors' Remuneration and on Group Remuneration Policy giving details of Company policy and individual Directors' remuneration is set out on pages 21 to 23. The remuneration arrangements of the Non-Executive Directors are determined by the Board as a whole.

The notice period provisions contained in the Directors' service agreements are summarised on page 22 of these accounts.

Executive Management Committee

The Executive Management Committee (the 'EMC'), under the Chairmanship of the Chief Executive, or in his absence the Finance Director, meets monthly and is responsible for the day-to-day running of the Group. The members of the EMC are the two Executive Directors of the Company, together with the five key business heads who are not Directors.

Relations with Shareholders

The Board welcomes the views of shareholders.

The AGM is used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's AGM, in order to take advantage of the opportunity to ask questions of the Directors.

Shareholders may also contact the Company in writing or via its website, which is regularly updated. Additional information is supplied through the circulation of the Interim Report and the Annual Report and Accounts. During the year the Company issued a series of announcements to the Stock Exchange. The Chief Executive, Finance Director and the Chairman from time to time meet individual and institutional shareholders and provide such information as is permissible in order to facilitate a better understanding of the Group's business and operations.

Governance

Statement of Corporate Governance continued

Internal Control

The Board of Directors has overall responsibility both for the Group's system of internal controls, which includes internal financial controls and for reviewing their effectiveness. The Directors recognise that no system of internal control can provide absolute assurance. The Group's systems are designed to manage the risk of failure to achieve business objectives and therefore can only provide the Directors with reasonable assurance against material misstatement or loss.

The key elements of the Group's internal control system, which have been operational for the whole of the financial year, are as follows:

- **Management Structure**

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. Reporting to the Chief Executive, is the EMC which is responsible for the day to day running of the Group's affairs.

- **Monitoring Systems used by the Board**

The Board receives regular reports on the financial and business performance of the Group. The Board is regularly advised through these reports on the working capital position and financial performance relative to the Group's approved budget.

- **Internal Audit**

The Board reviews from time to time the need for an Internal Audit function and remains of the opinion that the systems of internal financial control are appropriate to the Group's present activities and that such a function is unnecessary.

Going Concern

The Directors have 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 financial statements.

Compliance Statement

Corporate Governance procedures are subject to regular review by the Board. Throughout the year the Directors believe that the Group has complied with the provisions as set out in Section 1 of the Code, to the extent that they are appropriate for, and applicable to, a company of Patsystems' size quoted on AIM.

For and on behalf of the Board of Patsystems Plc.

Martin Thorneycroft
Company Secretary
7 February 2011

Report of the Board on Directors' Remuneration and on Group Remuneration Policy

Remuneration Committee

The Remuneration Committee, which comprises all of, and only, Non-Executive Directors, determines Group remuneration policy and the remuneration (including annual bonuses and long-term incentives) of Executive Directors and certain other senior management.

Policy on Group Remuneration

The Company's policy is to set the remuneration of senior executives (including Executive Directors) at a level to attract and retain executives of appropriate ability and experience to manage the affairs of the Company. This approach contains costs, improves employee benefits and increases the Company's competitiveness in the market for scarce skills. In formulating its remuneration policy, the Remuneration Committee is mindful of the competitive pressures inherent in a sector that straddles both the software and financial services industries. It is the Company's policy that a significant element of total remuneration is related to the financial performance of the Company. Remuneration is reviewed annually.

The Remuneration Package

The remuneration package comprises base salary and benefits, pension contributions, annual bonus and long-term incentive arrangements. All senior employees of the Group (including the Executive Directors) are remunerated using the policy described below.

Base Salary and Benefits

Base salary takes into account the performance of the individual and information from independent sources on market levels of remuneration. The Executive Directors' basic salaries are reviewed by the Committee prior to the beginning of each year. The Executive Directors are also entitled to private medical, death in service, critical illness and permanent health insurance and subsidised health club membership.

Pension Contributions

The Group operates a defined contribution pension scheme for eligible UK employees. Neither of the Executive Directors are members of this scheme; the Executive Directors receive a Company contribution to their individual pension arrangements.

Annual Bonuses

Bonus scheme arrangements are in place for all members of staff, including the Executive Directors. Bonuses for the Executive Directors are linked to the financial performance of the Group and staff bonuses are based on individual performance.

Long-Term Incentives

Share Options

The Group operates two share option plans – an Enterprise Management Incentive Share Option Scheme ('EMI') and a standard unapproved share option scheme. All senior staff, including the Executive Directors participate in both schemes.

Options awarded under the three main grants (as detailed below) are now 100% exercisable as they have vested.

The Company has also made a number of special awards under both schemes to Directors and senior employees which vested in between one and three years from the date of grant subject

to certain performance conditions. These awards (as detailed below) are now 100% exercisable as they have vested.

2007 Cash-Based Long-Term Incentive Scheme

During 2007 the Group introduced a new cash-based long-term incentive scheme ('the 2007 Cash Scheme'). As disclosed in the Company's Report and Accounts for 2009 all awards under the 2007 Cash Scheme fully vested in March 2010. The maximum conditional award allowable under the three year 2007 Cash Scheme was 100% of salary with each award vesting no earlier than the third anniversary from date of grant and vesting being subject to achievement of performance conditions and continued employment ('the Awards'). When the Awards to the Directors vest, they will be expected to use 50% of the net of tax amount to purchase the Company's shares in the open market until such time as a total personal shareholding has been achieved which is equivalent to 100% of base salary. In the event of a change of control (eg a take-over) the Awards will vest provided the Remuneration Committee is satisfied that it is fair and reasonable for them to do so (eg. that the terms of a take-over implicitly reflect prospective performance on a scale that would have resulted in full vesting).

Payments to the Directors under the 2007 Cash Scheme are detailed in the emoluments table overleaf. No further awards will be made under the 2007 Cash Scheme as it is being replaced by the share-based long-term incentive scheme detailed below.

New Share-Based Long-Term Incentive Scheme

The Remuneration Committee was unable, for reasons beyond its control, to introduce the scheme referred to in last year's report. It intends to introduce a modified version of that scheme early in 2011. The new Scheme will be open to the Executive Directors and certain other key senior staff.

An annual award of shares will be made to participants on an individual basis up to a maximum award of 100% of basic salary. No award will vest if EPS (calculated on an adjusted profit basis as detailed in the Finance Director's Review) growth over the preceding year is less than 7.5%. The maximum level of vesting will occur only if EPS growth reaches 20%, with a pro rata award vesting between 7.5% and 20%. Once granted, the shares will only vest unconditionally three years from date of conditional vesting provided the individual is still employed by the Company.

If, at the date of vesting unconditionally, the compound annual EPS growth over the previous 3 year period is greater than 10% then an additional award (a 'Matching Share Award') will be made on a sliding scale between 5% (for compound growth of 10%) and 100% (for compound growth of 20% or better) of the original value of the annual award. Matching Share Awards will vest unconditionally only if the individual is still employed by the Company 12 months after the grant of such award. In the event of a change of control, the Scheme provides for accelerated vesting.

Governance

Report of the Board on Directors' Remuneration and on Group Remuneration Policy continued

Directors' Emoluments

	Salary/fees £	Bonus £	LTIP £	Benefits in kind £	Total 2010 £	Total 2009 £
Executive Directors						
D Webber	255,000	–	130,000	5,608	390,608	405,039
M Thorneycroft	161,160	–	85,000	3,981	250,141	256,699
Non-Executive Directors						
R Last	45,000	–	–	–	45,000	45,000
J Priestley	30,000	–	–	–	30,000	30,000
S Sparke	10,894	–	–	–	10,894	30,900
S Douglas-Mann	19,194	–	–	–	19,194	–
	521,248	–	215,000	9,589	745,837	767,638

S Sparke resigned on 10 May 2010 and S Douglas-Mann was appointed on 10 May 2010.

Pensions

The Group operates a defined contribution pension scheme for eligible UK employees. The Executive Directors that served during the year were not members of this scheme. The following contributions to their private pensions were charged to the income statement:

	2010 £	2009 £
D Webber	26,479	25,960
M Thorneycroft	16,735	16,407
	43,214	42,367

Directors' Contractual Terms

	D Webber	M Thorneycroft	R Last	J Priestley	S Douglas-Mann
Date appointed	03-Jan-06	05-Jul-04	17-Feb-03	01-Jan-07	10-May-10
Service contract*	Yes	Yes	No	No	No
Notice period					
– by Company	12 months	6 months	3 months	3 months	3 months
– by Director	12 months	6 months	3 months	3 months	3 months
Benefits	Death in service	Death in service	–	–	–
Pension	10%	10%	–	–	–

* All the Non-Executive Directors are engaged under 'letters of appointment'.

In the event that an offer for the entire issued share capital of Patsystems Plc becomes wholly unconditional, the Executive and Non-Executive Directors are entitled to 12 months' notice.

Directors' Share Options

	Scheme type	Exercise price	Outstanding options at 31 December 2009	Exercised during the year	Outstanding options at 31 December 2010	Exercise date	Expiry date
D Webber	Unapproved	29.00p	1,000,000	–	1,000,000	Note 1	19.04.17
			1,000,000	–	1,000,000		
	EMI	15.25p	655,737	–	655,737	Note 2	30.07.14
	Unapproved	15.25p	344,263	–	344,263	Note 3	30.07.14
M Thorneycroft	Unapproved	18.00p	500,000	–	500,000	Note 3	17.03.15
			1,500,000	–	1,500,000		

The IFRS 2 charge to the income statement in relation to these options was £12,522.

Note 1: These options were granted under special awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options are now 100% exercisable.

Note 2: Options were granted under the second and third awards of the Enterprise Management Incentive ('EMI') Scheme. These options are now 100% exercisable.

Note 3: These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems Plc 2003 Share Option Scheme. These options are 100% exercisable.

The mid-market price of the Company's shares at the end of the financial year was 25p, and the range of market prices during the year was 21p to 31p.

Directors' Awards Under the Cash-Based Long-Term Incentive Scheme

The cash-based long-term incentive scheme is described above. The Awards vested in full in March 2010 and payments to the Directors are detailed in the emoluments table on page 22.

Stewart Douglas-Mann
Chairman, Remuneration Committee
7 February 2011

Financial Statements

Independent Auditors' Report to the Members of Patsystems Plc

We have audited the Group financial statements of Patsystems Plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, 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 Ethical Standards for Auditors.

This Report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group Financial Statements are prepared is consistent with the Group Financial Statements.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

Other Matter

We have reported separately on the Parent Company financial statements of Patsystems Plc for the year ended 31 December 2010.



Nigel Reynolds (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 February 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Revenue	4	22,111	22,097
Cost of sales		(628)	(555)
Gross profit		21,483	21,542
Operating expenses		(18,390)	(17,196)
Operating profit	5	3,093	4,346
Finance income	7	145	140
Profit before income tax		3,238	4,486
Current tax charge		(99)	(249)
Deferred tax charge		(588)	(875)
Taxation – total	8	(687)	(1,124)
Profit for the year attributable to equity holders of the Company		2,551	3,362
Earnings per ordinary share	10		
– basic		1.4p	1.9p
– diluted		1.4p	1.8p

The income statement has been prepared on the basis that all operations are continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Profit for the year	2,551	3,362
Other comprehensive income:		
Foreign exchange adjustment on foreign currency net investments	267	(162)
Total comprehensive income for the year	2,818	3,200

Financial Statements

Consolidated Balance Sheet

at 31 December 2010

	Notes	2010 £'000	2009 £'000
ASSETS			
Non-current assets			
Goodwill	12	3,251	3,251
Intangible assets	13	3,403	3,426
Property, plant and equipment	14	1,148	689
Deferred tax assets	15	4,467	4,945
Trade and other receivables	17	427	326
		12,696	12,637
Current assets			
Inventories	16	–	1
Trade and other receivables	17	6,632	5,006
Financial assets – derivative financial instruments	27	46	176
Income tax		–	8
Cash and cash equivalents	18	9,344	8,896
		16,022	14,087
LIABILITIES			
Current liabilities			
Trade and other payables	19	(3,023)	(2,793)
Current income tax liabilities		(8)	(98)
Provisions	20	–	(317)
		(3,031)	(3,208)
Net current assets		12,991	10,879
Non-current liabilities			
Provisions	20	(32)	(8)
		(32)	(8)
Net assets		25,655	23,508
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	22	1,866	1,853
Share premium account	24	4,641	4,493
Other reserves	24	20,862	20,862
Retained earnings	24	(1,714)	(3,700)
Total equity	25	25,655	23,508

The financial statements on pages 25 to 52 were approved by the Board of Directors on 7 February 2011.



David Webber
Chief Executive Officer



Martin Thorneycroft
Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Share Capital £'000	Share Premium Account £'000	Other Reserves £'000	Retained Earnings £'000	£'000
At 1 January 2010	1,853	4,493	20,862	(3,700)	23,508
Profit for the year	–	–	–	2,551	2,551
Other comprehensive income:					
– Foreign exchange movement	–	–	–	267	267
Total comprehensive income for the period	–	–	–	2,818	2,818
Shares issued in the year	13	148	–	–	161
Dividends paid	–	–	–	(892)	(892)
Share compensation expense	–	–	–	60	60
At 31 December 2010	1,866	4,641	20,862	(1,714)	25,655

Of the other reserve at 31 December 2010 £20,812,000 relates to a merger reserve.

	Share Capital £'000	Share Premium Account £'000	Other Reserves £'000	Retained Earnings £'000	£'000
At 1 January 2009	1,795	3,869	20,862	(6,472)	20,054
Profit for the year	–	–	–	3,362	3,362
Other comprehensive income:					
– Foreign exchange movement	–	–	–	(162)	(162)
Total comprehensive income for the period	–	–	–	3,200	3,200
Shares issued in the year	58	624	–	–	682
Dividends paid	–	–	–	(689)	(689)
Share compensation expense	–	–	–	261	261
At 31 December 2009	1,853	4,493	20,862	(3,700)	23,508

Of the other reserve at 31 December 2009 £20,812,000 relates to a merger reserve.

Financial Statements

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Cash flows from operating activities		
Cash flows from operations	2,843	4,292
Interest received	145	140
Tax paid	(186)	(149)
Net cash flows from operating activities	2,802	4,283
Cash from investing activities		
Purchase of intangible assets	(812)	(653)
Purchase of property, plant and equipment	(932)	(596)
Net cash flows used in investing activities	(1,744)	(1,249)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	161	682
Dividends paid to Company's shareholders	(892)	(689)
Net cash flows used in financing activities	(731)	(7)
Net increase in cash and cash equivalents	327	3,027
Cash and cash equivalents at beginning of the period	8,896	5,929
Effect of exchange rates on cash and cash equivalents	121	(60)
Cash and cash equivalents at end of the period	9,344	8,896

Reconciliation of net profit to net cash flows from operating activities

	2010 £'000	2009 £'000
Net profit	2,551	3,362
Tax	687	1,124
Depreciation of property, plant and equipment	508	419
Amortisation of intangible assets	807	753
Write off of intangible assets	29	–
Share compensation expense	60	261
Finance income	(145)	(140)
Decrease in inventories	1	2
(Increase)/decrease in trade and other receivables	(1,605)	1,123
Decrease/(increase) in financial assets	130	(1,029)
Increase/(decrease) in trade and other payables	113	(1,687)
(Decrease)/increase in provisions	(293)	104
Cash flows from operating activities	2,843	4,292

Notes to the Financial Statements

1. Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Accounting Convention and Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRIC interpretations endorsed by the European Union ('EU') and with those parts of the Companies Act 1985/2006 applicable to companies reporting under IFRS.

The results and net assets of subsidiary undertakings acquired are included in the consolidated income statement and consolidated balance sheet using the acquisition method of accounting from the effective date of acquisition.

These consolidated financial statements have been prepared under the historical cost convention, with the exception of financial instruments which are stated in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

New and Amended Standards Adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

New and Amended Standards, and Interpretations Mandatory for the First Time for the Financial Year Beginning 1 January 2010 but not Currently Relevant to the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them.

- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.
- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

Financial Statements

Notes to the Financial Statements continued

1. Accounting Policies continued

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments'.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosure required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

New Standards, Amendments and Interpretations Issued but not Effective for the Financial Year Beginning 1 January 2010 and not Early Adopted

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.
- Classification of rights issues (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011, subject to endorsement by the EU.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

The above amendments are not expected to have a material impact on the Group or Company's financial statements.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group will need to disclose any transactions between its subsidiaries. The Group is currently assessing the impact of this standard.

1.2 Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Pounds Sterling, which is the Parent Company's functional and presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group Companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in reserves.

1.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The carrying value of capitalised goodwill is also reviewed if events or changes in circumstances indicate a potential impairment. Any impairment is charged to the income statement. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

1.4 Intangible Assets

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The software acquired in the Tamesis acquisition was capitalised at fair value. These costs are amortised over their estimated useful lives (three years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

1.5 Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying value may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

1.6 Research and Development

Research expenditure is recognised as an expense as incurred. Costs directly attributable to development are capitalised as intangible assets when it is probable that the development will provide economic benefits, considering its commercial and technical feasibility, resources are available for the development and costs can be measured reliably. Other development expenditures are recognised as costs when incurred. Capitalised product development is amortised from completion of development over periods of between 3 and 5 years.

1.7 Property, Plant and Equipment

Property, plant and equipment is shown at cost less subsequent depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to reduce the cost of each asset to its estimated residual value over its estimated useful life, as follows:

Leasehold improvements – over the period of the lease
Plant and equipment – over 3 years
Office furniture, fixtures and fittings – over 4 years

1.8 Current and Deferred Income Taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries in which the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Financial Statements

Notes to the Financial Statements continued

1. Accounting Policies continued

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for on the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax balances are not discounted.

1.9 Inventories

Inventories are stated at the lower of cost and net realisable value.

1.10 Financial Assets

The Group classifies its financial assets between 'assets at fair value through profit or loss' and 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the financial assets are presented in the income statement in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. Impairment testing of trade receivables is described in note 1.12.

1.11 Accounting for Derivative Financial Instruments and Hedging Activities

The Group enters into forward currency contracts and options in order to hedge against the cash flow risk of foreign currency exchange rate movements. Derivatives are initially recognised at fair value on the date the contract is entered into and subsequently re-measured in future periods at their fair value. The movement in fair values is taken to the income statement.

The fair value of forward contracts is determined using forward exchange market rates at the balance sheet date.

1.12 Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due under the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in the income statement.

1.13 Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, cash in transit, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Cash in transit represents the net amount of monies due to Group companies that have been paid to independent clearing agents and are pending release by overseas withholding tax authorities.

1.14 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.15 Leases

Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term.

1.16 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This relates to provisions including dilapidations and long-term share incentive schemes.

1.17 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1.18 Revenue Recognition

Revenue comprises the fair value of the sale of goods and services, net of value added tax. Revenue is recognised as follows:

- Non-refundable installation income, consultancy and software development projects: revenue is taken to the income statement in line with the performance of the work.
- Monthly end user or lot charges, monthly maintenance and income on any rentals – these are credited to the income statement in the period in which the service is provided.
- Income from perpetual licences – this is recognised in the income statement when the Group has fulfilled all of its obligations in accordance with the terms for acceptance set out in the customer contracts and it is probable that economic benefits associated with the transaction will flow to the Group.
- Revenue relating to development projects is recognised using the percentage of completion method, based primarily on contract costs incurred to date, compared to estimated overall contract costs.

1.19 Employee Benefits

Pension Obligations

The Group operates a defined contribution scheme which is open to UK and US employees.

The Group pays contributions to publicly or privately administered pension insurance schemes on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Share-Based Benefits

The Group operates two share options schemes; the Enterprise Management Incentive Scheme and the 2003 Share Option Scheme (Inland Revenue unapproved).

The fair value of options is recognised as an employee benefit expense with a corresponding increase in reserves over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. A detailed explanation of how the fair values have been derived can be seen in note 23.

Cash-Based Long-Term Incentive Benefits

The Group introduced a cash-based long-term incentive scheme (the '2007 Cash Scheme') in 2007 and awards were granted to the Executive Directors and to certain senior and key employees. These awards were conditional upon the rate of growth in fully diluted pre-deferred tax EPS over the period from 31 December 2006 to 31 December 2009. The cost of these awards was estimated based on projected EPS growth and is recognised as an employee benefit expense on a straight line basis over the period from grant to March 2010 when the Awards fully vested.

Financial Statements

Notes to the Financial Statements continued

1. Accounting Policies continued

Other Benefits

UK employees are also entitled to private medical, death in service insurance, critical illness and long-term sickness insurance and subsidised health club membership. The costs of providing these benefits are recognised as employee benefit expense as they fall due.

This year the Group has a flexible benefits scheme that enables employees to tailor their total remuneration packages to meet their own individual lifestyle and family requirements.

1.20 Dividend Distributions

Final dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements when paid.

2. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

- Capitalisation of research and development costs.
- Impairment reviews for intangible assets.
- Development projects, where the percentage completion method is used. This requires the Group to estimate the development performed to date as a proportion of the total development to be performed. Another uncertainty is the expected total profit.
- In applying the Group's revenue recognition policy management undertake judgements in relation to the recoverability of current and future billings. These amounts are disclosed within trade receivables and accrued income.
- Deferred tax, see note 15.
- IRFS 2 share-based payment charge and the provision for the cash-based long-term incentive scheme, where judgement has been applied as to the number of awards expected to vest.

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks and it has developed and operates an overall risk management programme that recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is under the control of the Finance Director and is carried out centrally for the Group in compliance with policies approved and monitored by the full Board. The Board regularly reviews the effectiveness of these policies examining specific areas including foreign exchange risk, interest rate risk, credit risk and the extent to which financial instruments are being used to hedge certain risk exposures.

3.1 Market Risk

The principal market risk to which the Group is exposed is foreign currency risk on sales, purchases and cash balances that are denominated in a currency other than Sterling. The principal currency giving rise to this risk is the US Dollar. Patsystems' policy is to carry forward cover for 75% of US\$/£ net anticipated exposure for 12 months forward. Forward cover is achieved through a mixture of forward contracts and options. This policy has remained unchanged throughout both 2010 and 2009 although the level of cover and the exposure to risks on other foreign currencies are kept under regular review.

The average US\$/£ exchange rate used in the 2010 income statement was 1.54 (2009: 1.57). The average rate of the hedges in place at 31 December 2010 for 2011 was 1.58 (2009 for 2010: 1.60). The fair value of these hedges is recognised as a financial asset of £46,000 (2009: asset of £176,000) on the Group balance sheet at the year end.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. This exposure is minimised by a Group policy requiring individual subsidiaries to remit any surplus funds to the Parent Company to facilitate central management as set out above and to enable each individual subsidiary to match remaining assets and liabilities denominated in their specific functional currencies.

During the year ended 31 December 2010 the US\$/£ exchange rate fluctuated between 1.44 and 1.60 (2009 between 1.42 and 1.65). At 31 December 2010, if the US\$ had weakened/strengthened by 20% against the £ with all other variables held constant, post tax profit for the year would have been £915,000 (2009: £630,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US\$ denominated trade receivables.

The Group is also exposed to interest rate risks on the fair values of the hedging instruments that it holds and on the cash flows arising from any interest bearing cash deposits. These assets are regularly realised to settle trade and other payables as part of the

Group's management of its liquidity risks. The Group has no material borrowings and accordingly, exposures to interest rate risks are not regarded as significant.

3.2 Credit Risk

Credit risk arises from cash and cash equivalents and from credit exposures to the Group's customers, including outstanding receivables and committed transactions. Credit risk is managed centrally with regular reports of exposures reviewed by the Board. The Group does not set individual credit limits but will seek to ensure that counterparties enter into legally enforceable contracts that include settlement terms that demonstrate the counterparties' commitment to the transaction and minimise this risk exposure.

The Board does not assess the credit quality of financial assets by reference to external credit ratings, but will regularly examine the ageing of financial assets and individual counterparty historic default rates. An aged analysis of trade receivables at 31 December 2010 is set out in note 17.

3.3 Liquidity Risk

The Group has no borrowings or committed credit lines and its liquidity management policy is carried out at a local level and involves projecting cash flows in major currencies and considering the levels of liquid assets necessary to meet these. Requirements are overseen by the Board with Group levels of cash and cash equivalents reviewed on a monthly basis. A maturity analysis of trade and other payables is shown in note 19.

3.4 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. Consistent with others in the industry and of its size, the Group believes that an optimum capital structure is currently achieved entirely through equity and with no net debt. Total equity at 31 December 2010 was £25,655,000 (2009: £23,508,000).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or raise future funds through debt.

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4. Segmental Analysis

The Chief Operating Decision Maker is the Board of Directors. The Board reviews the Company's internal reporting in order to assess performance of the business. Management has determined the operating segments based on the reports reviewed by the Board.

The Board considers the business from a geographic perspective, monitoring performance by Europe, the Americas and Asia Pacific.

The Group operates in one product line, that of the supply of software to financial institutions.

The Board assesses the performance of the business based on a measure of adjusted profit. Adjusted profit is defined as 'profit before tax after adjusting for share option costs, marking-to-market of derivatives used to hedge cash flows and amortisation of intangibles other than internally developed software.' A reconciliation of adjusted profit to profit before tax is detailed below.

2010	Europe £'000	Americas £'000	Asia Pacific £'000	Total £'000
Revenue from external customers	8,325	6,056	7,730	22,111
Revenue by destination	7,773	5,800	8,538	22,111
Adjusted profit	2,966	121	666	3,753
Depreciation and amortisation	1,037	60	218	1,315
Finance income	139	3	3	145
Income tax expense	358	155	174	687
Total assets	22,531	2,274	3,913	28,718
Total liabilities	(1,791)	(430)	(842)	(3,063)

2009	Europe £'000	Americas £'000	Asia Pacific £'000	Total £'000
Revenue from external customers	7,788	6,745	7,564	22,097
Revenue by destination	7,518	6,353	8,226	22,097
Adjusted profit	2,515	391	1,015	3,921
Depreciation and amortisation	1,065	31	76	1,172
Finance income	130	7	3	140
Taxation expense	829	16	279	1,124
Total assets	21,953	1,569	3,202	26,724
Total liabilities	(2,035)	(211)	(970)	(3,216)

A reconciliation of adjusted profit to profit before tax is provided as follows:

	2010 £'000	2009 £'000
Adjusted profit for reportable segments	3,753	3,921
Share compensation expense	(60)	(261)
Movement in fair value of hedging instruments	(338)	1,029
Amortisation of intangibles	(117)	(203)
Finance income	(145)	(140)
Operating profit	3,093	4,346
Finance income	145	140
Profit before income tax	3,238	4,486

The amounts provided to management with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. The assets are allocated based on the operations of the segment and the physical location of the asset and the liabilities are allocated based on the operations of the segment.

The total of non-current assets other than deferred tax assets located in Europe is £7,201,000 (2009: £7,428,000), and the total of these non-current assets located in other regions is £1,028,000 (2009: £264,000).

Revenue from one customer (2009: two customers) accounts for more than 10% of total revenue, with revenue of £3,232,000 (2009: £3,574,000 and £2,560,000). These revenues are attributable to all segments.

5. Operating Profit

	2010 £'000	2009 £'000
Operating profit is stated after charging/(crediting):		
Staff costs	11,900	12,310
Share compensation expense	60	261
Total staff costs	11,960	12,571
Less: wages and salaries capitalised in accordance with IAS 38	(339)	(377)
	11,621	12,194
Depreciation:		
– owned tangible assets	508	419
– total tangible assets	508	419
Amortisation:		
– capitalised development costs	689	550
– other intangible assets	118	203
– total intangible assets	807	753
Write off of intangible assets	29	–
Operating lease costs:		
– plant and machinery	31	32
– other	520	540
– total operating lease costs	551	572
Foreign exchange (gain)/loss:		
– movement in fair value of hedging instruments	338	(1,029)
– other exchange gains and losses	(64)	455
– total foreign exchange loss/(gain)	274	(574)

Services provided by the Group's auditor and network firms:

	2010 £'000	2009 £'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	36	35
Fees payable to the Group's auditor and its associates for other services:		
– the audit of the Group's subsidiaries pursuant to legislation	53	51
– tax services	39	41
– human resource services	10	–
All other services	33	33
	171	160

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6. Staff Costs

	2010 £'000	2009 £'000
Staff costs (including Directors' emoluments) during the year amounted to:		
Wages and salaries	10,101	10,458
Share compensation expense	60	261
Social security costs	1,099	1,146
Pension costs	700	706
	11,960	12,571

Included in the above wages and salaries is £339,000 (2009: £377,000) in relation to development costs that were capitalised in accordance with IAS 38.

The average monthly number of persons (including Directors) employed by the Group during the year, in full time equivalents, was:

	2010 Number	2009 Number
Sales, account management and marketing	23	21
Customer operations, testing and technical	77	73
Development and product development	45	48
Finance, administration and board	21	20
	166	162

Details of the emoluments of the Directors are contained in the Report of the Board on Directors' Remuneration and Group Remuneration Policy on page 22, under the heading 'Directors' Emoluments'.

Details of key management remuneration are shown in note 28.

7. Finance Income

	2010 £'000	2009 £'000
Bank interest receivable	113	78
Interest receivable on the fair value of long-term receivables	29	37
Other interest	3	25
	145	140

Other interest relates to the interest received on an office rental deposit in the United States (2009: interest on the return of a rental deposit from the Cottons Centre premises and interest on the office rental deposit in the United States).

8. Tax on Profit on Ordinary Activities

	2010 £'000	2009 £'000
United Kingdom		
Withholding tax	9	12
Foreign tax		
Corporation tax – current year	72	177
Corporation tax – in relation to prior year	(30)	60
Withholding tax	48	–
Total current tax	99	249
Deferred tax		
Movement in deferred tax (note 15)	588	875
Taxation charge	687	1,124

The tax for the year is different from that which would result from applying the standard rate of Corporation Tax in the UK (28%). The differences are explained below:

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	3,238	4,486
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 28% (2009: 28%)	907	1,256
Effects of:		
Expenses not deductible for tax purposes	221	(77)
Effect of differing tax rates on overseas earnings	(18)	(87)
Withholding tax	57	11
Adjustments in respect of prior years – corporation tax	(30)	60
Adjustments in respect of prior years – deferred tax	(101)	(46)
R&D tax losses	(517)	–
Tax losses for which no deferred tax asset has been recognised	17	7
Re-measurement of deferred tax on change of UK rate	151	–
Taxation charge	687	1,124

From 1 April 2011 the UK Corporation Tax rate will change from 28% to 27%. Deferred tax assets have been remeasured at the rate of 27%.

Future tax balances will be affected by the proposed changes in the Corporation Tax rates: from 1 April 2012: 26%, 1 April 2013: 25% and 1 April 2014: 24%.

The Group made successful claims for R&D tax credits in relation to 2007 and 2008 which has resulted in additional tax losses being available in Patsystems (UK) Limited.

Factors that May Affect Future Tax Charges

The Group has unrelieved tax losses of £16,640,000 (2009: £18,128,000) that are available for offset against future taxable profits in their respective territories. A deferred tax asset amounting to £145,000 (2009: £156,000) has not been recognised in respect of these losses as their future recovery is uncertain.

9. Parent Company Accounts

The Parent Company accounts are set out in pages 53 to 59.

10. Earnings Per Ordinary Share

In accordance with IAS 33, the calculation of earnings per ordinary share is based upon:

(a) Basic Earnings Per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year:

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10. Earnings Per Ordinary Share continued

	2010	2009
Profit for the year attributable to equity holders of the company	£2,551,000	£3,362,000
Weighted average number of shares	186,146,310	180,628,990
Basic earnings per share	1.4p	1.9p

(b) Diluted Earnings Per Share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversions of all dilutive potential ordinary shares.

The Group has one category of dilutive potential ordinary shares: share options.

For share options a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding options.

The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010	2009
Profit for the year attributable to equity holders of the Company	£2,551,000	£3,362,000
Weighted average number of shares	186,146,310	180,628,990
Effect of dilutive share options	1,170,581	1,628,191
	187,316,891	182,257,181
Diluted earnings per share	1.4p	1.8p

11. Principal Subsidiaries

The principal investments in subsidiary undertakings held by the Parent Company are as follows:

1. A 100% investment in respect of voting rights and nominal value in Patsystems Holdings Limited, a company incorporated in England and Wales.

The historical cost of the investment in the shares of Patsystems Holdings Limited is £11,180,000. Under the Scheme of Arrangement the subsidiary undertaking returned capital to the Company amounting to £9,865,000, and the cost of the investment has been reduced accordingly to reflect this.

The following subsidiary undertakings are wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and perform the sale and support of electronic trading systems:

Patsystems (UK) Ltd	–	incorporated in England and Wales
Patsystems (NA) LLC	–	incorporated in United States of America
Patsystems Pte Ltd	–	incorporated in Singapore
Patsystems Pty Ltd	–	incorporated in Australia
Patsystems GmbH	–	incorporated in Germany
Patsystems Hong Kong Limited	–	incorporated in Hong Kong

The following subsidiary is wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and acts as a holding company:

Professional Automated Trading Systems BV (incorporated in The Netherlands).

Professional Automated Trading Systems BV owns 100% of voting rights and nominal value of issued shares in Patsystems (Japan) KK (incorporated in Japan), which performs the sale and support of electronic trading systems.

Patsystems (Japan) KK owns 100% of voting rights and nominal value of issued shares in Patsystems (Ireland) Ltd (incorporated in the Republic of Ireland), which acts as a holding company.

2. During the year Patsystems Plc transferred all of the assets and liabilities of Tamesis Limited to Patsystems (UK) Limited.

All subsidiaries are included in the consolidation.

12. Goodwill

	2010 £'000	2009 £'000
Cost and net book value		
At 1 January	3,251	3,251
Additions	–	–
At 31 December	3,251	3,251

The goodwill is all held in Europe.

Impairment review

The recoverable amount for the cash generating unit has been measured based on a value in use calculation. The calculations use pre-tax profits based on budgets approved by management for the year 2011. Cash flows beyond this are based on a growth rate of 2.25%. A pre-tax discount rate of 15% has been applied to the calculations.

As the value in use is greater than the carrying value there is no impairment in the period and the carrying value of goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

13. Intangible Assets

2010	Software licences £'000	Acquired software £'000	Capitalised development £'000	Total £'000
Cost				
At 1 January 2010	572	898	4,904	6,374
Additions	195	–	617	812
Disposals	(437)	–	(62)	(499)
Foreign exchange	2	–	–	2
At 31 December 2010	332	898	5,459	6,689
Amortisation				
At 1 January 2010	(463)	(898)	(1,587)	(2,948)
Charge for the year	(118)	–	(689)	(807)
Disposals	437	–	33	470
Foreign exchange	(1)	–	–	(1)
At 31 December 2010	(145)	(898)	(2,243)	(3,286)
Net book value				
At 31 December 2010	187	–	3,216	3,403
At 31 December 2009	109	–	3,317	3,426
2009				
Cost				
At 1 January 2009	678	898	4,294	5,870
Additions	43	–	610	653
Disposals	(144)	–	–	(144)
Foreign exchange	(5)	–	–	(5)
At 31 December 2009	572	898	4,904	6,374
Amortisation				
At 1 January 2009	(408)	(898)	(1,037)	(2,343)
Charge for the year	(203)	–	(550)	(753)
Disposals	144	–	–	144
Foreign exchange	4	–	–	4
At 31 December 2009	(463)	(898)	(1,587)	(2,948)
Net book value				
At 31 December 2009	109	–	3,317	3,426
At 31 December 2008	270	–	3,257	3,527

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14. Property, Plant and Equipment

2010	Leasehold improvements £'000	Plant and equipment £'000	Office furniture fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2010	158	1,054	128	1,340
Additions	4	928	–	932
Disposals	(48)	(277)	(32)	(357)
Foreign exchange	–	58	3	61
At 31 December 2010	114	1,763	99	1,976
Depreciation				
At 1 January 2010	(46)	(519)	(86)	(651)
Charge for the year	(32)	(455)	(21)	(508)
Disposals	48	277	32	357
Foreign exchange	–	(24)	(2)	(26)
At 31 December 2010	(30)	(721)	(77)	(828)
Net book value				
At 31 December 2010	84	1,042	22	1,148
At 31 December 2009	112	535	42	689

2009	Leasehold improvements £'000	Plant and equipment £'000	Office furniture fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2009	564	1,301	111	1,976
Additions	110	455	31	596
Disposals	(509)	(667)	(11)	(1,187)
Foreign exchange	(7)	(35)	(3)	(45)
At 31 December 2009	158	1,054	128	1,340
Depreciation				
At 1 January 2009	(451)	(956)	(53)	(1,460)
Charge for the year	(110)	(265)	(44)	(419)
Disposals	509	667	11	1,187
Foreign exchange	6	35	–	41
At 31 December 2009	(46)	(519)	(86)	(651)
Net book value				
At 31 December 2009	112	535	42	689
At 31 December 2008	113	345	58	516

15. Deferred Tax Assets

2010	Trading losses £'000	Capital allowances £'000	Share options £'000	Other timing differences £'000	Total £'000
At 1 January 2010	4,933	(100)	70	42	4,945
Utilisation of losses against current year profits	(1,133)	–	–	–	(1,133)
Adjustments in respect of prior years	101	–	–	–	101
Impact of change in corporation tax rate	(151)	–	–	–	(151)
R&D tax losses	517	–	–	–	517
Credits/(charges) arising in the year	–	119	(11)	(30)	78
(Charged)/credited to income statement	(666)	119	(11)	(30)	(588)
Foreign exchange	36	–	–	–	36
Future tax value of withholding tax payable	74	–	–	–	74
At 31 December 2010	4,377	19	59	12	4,467

2009	Trading losses £'000	Capital allowances £'000	Share options £'000	Other timing differences £'000	Total £'000
At 1 January 2009	5,706	(171)	41	301	5,877
Utilisation of losses against current year profits	(762)	–	–	–	(762)
Adjustments in respect of prior years	46	–	–	–	46
(Charges)/credits arising in the year	–	71	29	(259)	(159)
(Charged)/credited to income statement	(716)	71	29	(259)	(875)
Foreign exchange	(57)	–	–	–	(57)
At 31 December 2009	4,933	(100)	70	42	4,945

Deferred tax assets in respect of Group companies' unrelieved trading losses are recognised when the specific company's business has become profitable and to the extent that it is probable there will be future trading profits to utilise such losses.

From 1 April 2011 the UK Corporation Tax rate will change from 28% to 27%. Deferred tax assets have been remeasured at the rate of 27%.

16. Inventories

	2010 £'000	2009 £'000
Goods for resale	–	1

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Notes to the Financial Statements continued

17. Trade and Other Receivables

	2010 £'000	2009 £'000
Trade receivables	2,996	2,737
Less: provision for impairment of receivables	(120)	(107)
Trade receivables – net	2,876	2,630
Other receivables	438	392
Prepayments and accrued income	3,745	2,310
	7,059	5,332
Less non-current portion – accrued income	(427)	(326)
Current Portion	6,632	5,006

Non-current receivables are due as follows:

	2010 £'000	2009 £'000
Within between one and two years	142	84
Within between two and five years	285	225
After more than five but less than ten years	–	17
Non-current receivables	427	326

The carrying values less impairment provisions of trade and other receivables approximate their fair values.

The effective interest rates on non-current receivables were between the range of 1 – 6% (2009: 1 – 6%).

The ageing of trade receivables is as follows:

2010	Not past due £'000	Up to 3 months £'000	3 to 6 months £'000	Over 6 months £'000	Total £'000
Fully performing	2,070	–	–	–	2,070
Past due but not impaired	–	806	–	–	806
Impaired and provided for	–	10	66	44	120
	2,070	816	66	44	2,996
Percentage	69%	27%	2%	2%	100%

2009	Not past due £'000	Up to 3 months £'000	3 to 6 months £'000	Over 6 months £'000	Total £'000
Fully performing	1,870	–	–	–	1,870
Past due but not impaired	–	737	22	1	760
Impaired and provided for	–	11	52	44	107
	1,870	748	74	45	2,737
Percentage	68%	27%	3%	2%	100%

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2010, trade receivables of £806,000 (2009: £760,000) were past due but not impaired. These relate to a number of independent customers for whom there is no indication of financial difficulties or recent history of default. The Group is in contact with these customers and obtained assurances from which it believes that the amounts receivable will be collected in full with no additional cost to the Group.

Provisions for the portion of individually impaired trade receivables assessed to be irrecoverable at 31 December 2010 totalled £120,000 (2009: £107,000). These relate to customers where there are indications of financial difficulties or disputes that are unlikely to be resolved without further costs to the Group.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2010 £'000	2009 £'000
UK Pound	2,452	2,080
US Dollar	3,826	2,470
Singapore Dollar	239	363
Japanese Yen	179	334
Australian Dollar	126	46
Other currencies	237	39
Total	7,059	5,332

Movements on the Group provision for impairment of trade receivables are as follows:

	2010 £'000	2009 £'000
At 1 January	107	134
Provision for receivables impairment	60	60
Receivables written off during the year as uncollectible	(24)	(17)
Unused amounts reversed	(26)	(67)
Foreign exchange	3	(3)
At 31 December	120	107

The creation and release of provisions for impaired receivables has been included in 'operating expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

18. Cash and Cash Equivalents

	2010 £'000	2009 £'000
Cash at bank and on hand	4,011	3,294
Short-term deposits	5,333	5,602
	9,344	8,896

The credit quality of the Group's financial assets represented by cash and cash equivalents is not assessed by reference to external credit ratings but is regularly reviewed by the Board. Monies are held with international banking organisations and, where appropriate, with well established local bankers that are able to provide the levels of security, accessibility and service to meet local needs.

The interest rates on interest bearing short-term deposits are floating rates. All financial assets represented by cash and cash equivalents mature within one year.

The carrying values of cash and cash equivalents approximate their fair values.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2010 £'000	2009 £'000
UK Pound	7,087	6,879
US Dollar	1,380	1,215
Singapore Dollar	280	233
Japanese Yen	358	367
Australian Dollar	117	116
Other currencies	122	86
Total	9,344	8,896

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18. Cash and Cash Equivalents continued

In the year ended 31 December 2009 the Group put in place a guarantee of the value of \$800,000 in respect of one of its ongoing contracts. This guarantee remains in place at 31 December 2010.

19. Trade and Other Payables

	2010 £'000	2009 £'000
Current liabilities		
Trade payables	779	418
Other tax and social security	509	562
Other creditors	2	15
Accruals	1,477	1,535
Deferred income	256	263
	3,023	2,793

None of the payables are secured.

All trade and other payables mature within one year.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2010 £'000	2009 £'000
UK Pound	1,729	1,652
US Dollar	628	534
Singapore Dollar	370	281
Japanese Yen	98	233
Australian Dollar	58	38
Other currencies	140	55
Total	3,023	2,793

The carrying amounts of the Group's trade and other payables approximate their fair values.

The Group's intercompany receivables and payables, which are eliminated on consolidation, are recorded in the books of the local entities in the following currencies:

	2010 £'000 Receivables	2010 £'000 Payables	2009 £'000 Receivables	2009 £'000 Payables
UK Pound	21,681	(37,867)	21,278	(38,229)
US Dollar	–	(4,624)	–	(3,834)
Singapore Dollar	1,895	(3,432)	1,307	(2,613)
Japanese Yen	1,592	(1,493)	1,712	(1,807)
Australian Dollar	263	(619)	224	(576)
Other currencies	190	(2,062)	171	(2,109)
	25,621	(50,097)	24,692	(49,168)

The difference between the intercompany receivables and payable of £24,476,000 relates to provision made against intercompany receivables in prior years.

20. Provisions

	At 1 January 2010 £'000	Utilised in year £'000	Movement in year £'000	At 31 December 2010 £'000
<i>No later than one year</i>				
Cash-based long term incentive scheme	317	(383)	66	–
<i>Later than one year and no later than five years</i>				
Dilapidations provision	8	–	24	32
	325	(383)	90	32

The cash-based long term incentive scheme is described in the Remuneration report. This expired in March 2010.

The dilapidations provision is in respect of work to be carried out at the end of the lease on property at Riverside House. This is due to expire in 2014.

21. Commitments Under Operating Leases

The Group leases various offices and plant and machinery under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights.

The lease expenditure charged to the income statement during the year is disclosed in note 5.

The future minimum lease payments under non-cancellable operating leases are as follows:

	Land and Buildings		Plant and Machinery		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
No later than one year	575	368	29	30	604	398
Later than one year and no later than five years	1,116	1,269	40	55	1,156	1,324
Later than five years	–	–	–	–	–	–
	1,691	1,637	69	85	1,760	1,722

22. Share Capital

	2010 £'000	2009 £'000
Authorised		
<i>Ordinary shares of 1p each</i>		
At 1 January and 31 December – 250,000,000 shares	2,500	2,500
<i>Deferred shares of 1p each</i>		
At 1 January and 31 December – 2 shares	–	–
<i>Redeemable preference shares of £1 each</i>		
At 1 January and 31 December – 49,998 shares	50	50
Allotted, called up and fully paid		
<i>Ordinary shares of 1p each</i>		
At 1 January – 185,330,693 shares	1,853	1,795
Allotted under share option schemes – 1,332,601	13	58
At 31 December – 186,663,294 shares	1,866	1,853

The 1p ordinary shares are listed on the AIM market. They have one voting right per share.

Deferred shares of 1p each

At 1 January and 31 December – 2 shares

The deferred 1p shares are not listed. They have no voting rights and no access to dividends.

Financial Statements

Notes to the Financial Statements continued

23. Share Option Schemes

The following options to purchase 1p Ordinary shares in Patsystems plc were granted, exercised, lapsed and outstanding during the year:

Exercise price in pence	Outstanding at 1 January 2010	Granted in year	Exercised in year	Lapsed in year	Outstanding at 31 December 2010	Exercisable at 31 December 2010	Effective dates
5.08p	558,000	–	(378,000)	–	180,000	180,000	Note a
9.50p	90,000	–	(45,000)	–	45,000	45,000	Note a
14.25p	403,553	–	(197,453)	(44,400)	161,700	161,700	Note a
14.50p	496,951	–	–	–	496,951	496,951	Note a
15.25p	775,737	–	(60,000)	–	715,737	715,737	Note a
15.58p	670,400	–	(275,600)	(30,000)	364,800	364,800	Note a
17.50p	30,000	–	–	–	30,000	30,000	Note a
27.75p	250,000	–	–	–	250,000	250,000	Note c
29.00p	444,827	–	–	–	444,827	444,827	Note c
	3,719,468	–	(956,053)	(74,400)	2,689,015	2,689,015	
14.25p	179,143	–	(56,168)	(89,375)	33,600	33,600	Note b
14.50p	83,089	–	–	–	83,089	83,089	Note b
15.25p	344,263	–	–	–	344,263	344,263	Note b
15.58p	595,700	–	(320,380)	(258,520)	16,800	16,800	Note b
18.00p	500,000	–	–	–	500,000	500,000	Note b
27.75p	1,000,000	–	–	–	1,000,000	1,000,000	Note d
29.00p	1,655,173	–	–	–	1,655,173	1,655,173	Note d
	4,357,368	–	(376,548)	(347,895)	3,632,925	3,632,925	
Total all schemes	8,076,836	–	(1,332,601)	(422,295)	6,321,940	6,321,940	

Note a: These options were granted under the first, second and third awards of the Enterprise Management Incentive ('EMI') Scheme. These options are now 100% exercisable.

Note b: These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems plc 2003 Share Option Scheme. These options are now 100% exercisable.

Note c: These options were granted under a special award of the EMI Scheme. These options are now 100% exercisable.

Note d: These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems plc 2003 Share Option Scheme. These options are now 100% exercisable.

No share options were granted in the year (2009: nil).

For the options that were exercised during the year, the weighted average share price at the date of exercise was 24p (2009: 21p).

The weighted average remaining contractual life of options outstanding at the year end is 5.2 years (2009: 5.7 years)

The total fair value that was charged to the income statement in relation to the share options was £60,000 (2009: £261,000), all of which related to equity settled share-based payment transactions.

The fair values of the options have been calculated using the Binomial Model. The model takes into account the following factors in determining the fair value of an option:

(a) Share Price and Exercise Price

Share prices are closing share prices as at the date of grant. Exercise prices are listed in the above schedule.

(b) Expected Term of the Options

It is assumed that the expected life of the options under consideration is 5 years.

(c) Volatility

Volatility of the Company's share price has been calculated as the annualised standard deviation of daily continuously compounded returns on the Company's stock, derived from the Company's historical share prices, adjusted for splits, over 5 years back from each date of grant.

(d) Risk-Free interest rate

The risk-free rates of interest are assumed to be the yield to maturity on a UK Gilt Strip with the term to maturity equal to the expected life of the option.

(e) Dividends

The valuations take account of the expected future dividend yield at the date of each grant.

The table below sets out the volatilities, risk-free interest rates and dividend yields applied in each valuation:

Date of grant	Volatility (%)	Risk-free interest rate (%)	Dividend yield (%)
24 February 2003	77.8009%	4.6922%	0.00%
13 March 2003	78.3590%	4.7175%	0.00%
30 June 2003	78.4194%	4.6412%	0.00%
27 October 2003	79.8321%	5.7891%	0.00%
01 January 2004	78.6748%	5.4125%	0.00%
30 July 2004	73.6821%	5.8602%	0.00%
27 August 2004	71.7764%	5.6660%	0.00%
16 November 2004	58.9201%	5.2789%	0.00%
04 February 2005	56.6301%	5.1507%	0.00%
17 March 2005	52.4971%	5.4148%	0.00%
06 October 2005	54.9819%	4.7689%	2.00%
23 November 2005	49.8819%	4.8322%	2.00%
14 December 2005	50.0097%	4.8764%	2.00%
14 February 2006	50.1501%	4.7515%	2.00%
19 April 2007	48.4035%	5.2980%	1.00%
7 December 2007	30.0527%	4.5550%	1.00%
31 December 2007	30.9369%	5.6204%	1.00%

24. Share Capital and Reserves

	At 1 January 2010 £'000	Shares issued in the year £'000	Earnings for the year £'000	Dividends paid £'000	Foreign exchange movement £'000	Share compensation expense £'000	At 31 December 2010 £'000
Paid up share capital	1,853	13	—	—	—	—	1,866
Share premium	4,493	148	—	—	—	—	4,641
Other reserves	20,862	—	—	—	—	—	20,862
Retained earnings	(3,700)	—	2,551	(892)	267	60	(1,714)
	23,508	161	2,551	(892)	267	60	25,655

Of the other reserve at 31 December 2010 £20,812,000 relates to a merger reserve.

	At 1 January 2009 £'000	Shares issued in the year £'000	Earnings for the year £'000	Dividends paid £'000	Foreign exchange movement £'000	Share compensation expense £'000	At 31 December 2009 £'000
Paid up share capital	1,795	58	—	—	—	—	1,853
Share premium	3,869	624	—	—	—	—	4,493
Other reserves	20,862	—	—	—	—	—	20,862
Retained earnings	(6,472)	—	3,362	(689)	(162)	261	(3,700)
	20,054	682	3,362	(689)	(162)	261	23,508

Of the other reserve at 31 December 2009 £20,812,000 relates to a merger reserve.

Investments in Own Shares

The Group has an investment in own shares of 71,856 shares (2009: 71,856 shares) as a result of employees leaving the All Employee Share Scheme. The nominal value of these shares is £719 (2009: £719). The market value at 31 December 2010 is £18,000 (2009: £16,000).

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Notes to the Financial Statements continued

25. Statement of Changes in Shareholders' Equity

Statement of Changes in Equity

	2010 £'000	2009 £'000
Profit on ordinary activities after taxation	2,551	3,362
Dividends paid	(892)	(689)
Foreign exchange adjustment	267	(162)
Share compensation expense	60	261
Proceeds from the issue of ordinary share capital	161	682
	2,147	3,454
Shareholders' funds at 1 January	23,508	20,054
Shareholders' funds at 31 December	25,655	23,508

26. Dividends

The dividends paid in the year were as follows:

	2010 £'000	2009 £'000
Second interim dividend in respect of the year ended 31 December 2009 at 0.28p per share (2009: 0.237p)	519	427
Interim dividend at 0.2p per share (2009: 0.145p)	373	262
	892	689

A second interim dividend in respect of the year ended 31 December 2010 of 0.35p per share amounting to a total dividend of £653,000, is to be paid on 8 April 2011. These financial statements do not reflect this dividend payable.

27. Financial Instruments

27.1 Financial Risk Management

The Group's financial instruments comprise cash and liquid resources, trade and other debtors and creditors arising directly from the operations of the Group and forward exchange contracts. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised in note 3 above.

Note 3.1 includes an analysis of the sensitivities of the movement in the US\$/UK£ exchange rate and the impact on the financial statements.

27.2 Accounting Policies

The Group's accounting policies for financial instruments are detailed in note 1 above and have been applied to the line items below.

2010	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
Assets as per balance sheet			
Trade and other receivables	7,059	–	7,059
Derivative financial instruments	–	46	46
Cash and cash equivalents	9,344	–	9,344
	16,403	46	16,449

2010	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
Liabilities as per balance sheet			
Trade and other payables	3,023	–	3,023
Income tax	–	8	8
Provisions	32	–	32
	3,055	8	3,063

2009	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Total £'000
Assets as per balance sheet			
Trade and other receivables	5,332	–	5,332
Derivative financial instruments	–	176	176
Income tax	8	–	8
Cash and cash equivalents	8,896	–	8,896
	14,236	176	14,412

2009	Liabilities at fair value through the profit and loss £'000	Other financial liabilities £'000	Total £'000
Liabilities as per balance sheet			
Trade and other payables	2,793	–	2,793
Income tax	–	98	98
Provisions	325	–	325
	3,118	98	3,216

The Group had no borrowings as at 31 December 2010 or 31 December 2009.

27.3 Foreign Currency Exposure

The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and profits into Sterling for accounting purposes.

Analyses of the Group's financial assets and liabilities denominated in foreign currencies are given in notes 17, 18 and 19.

The Group has a net earnings exposure to the US Dollar together with an exposure to the translation of the balance sheet of its US subsidiary. During the year, the Board authorised the hedging of US Dollar exposures. At 31 December 2010 the Company has the following hedges in place:

Financial Statements

Notes to the Financial Statements continued

27. Financial Instruments continued

Currency Options

Forward contract value	Maturity date	Effective forward rate
\$300,000	27-Jan-11	1.5500
\$300,000	24-Feb-11	1.5500
\$300,000	29-Mar-11	1.5500
\$300,000	27-Apr-11	1.5500
\$300,000	26-May-11	1.5500
\$300,000	28-Jun-11	1.5500
\$300,000	27-Jul-11	1.6000
\$300,000	26-Aug-11	1.6000
\$400,000	28-Sep-11	1.6000
\$450,000	27-Oct-11	1.6000
\$450,000	28-Nov-11	1.6000

At the year end the fair value of the above contracts is an asset of £46,000 (2009: asset £176,000). The movement in fair values of £338,000 (2009: £1,029,000) has been debited (2009: credited) to the income statement in the year.

28. Related Party Transactions

Revenue includes £393,000 (2009: £428,000) in respect of Banca Caboto Spa (London Branch), a member of a Group of companies which include CAI (Suisse), a shareholder of the Company. At 31 December 2009 the amount owing to Group companies by Banca Caboto Spa (London Branch) was £nil (2009: £78,870).

Revenue also includes £483,000 (2009: £350,000) in respect of Marex Trading Services, a company of which one of the Non-Executive Directors in the year, Steve Sparke, is also a Director. At 31 December 2010 the amount owing to Group companies by Marex Trading Services was £nil (2009: £43,341).

Key Management Remuneration

Details of the remuneration of key management are detailed below:

	2010 £'000	2009 £'000
Salaries and short-term employee benefits	1,618	1,705
Share-based payments	58	124
	1,676	1,829

Independent Auditors' Report to the Members of Patsystems Plc

We have audited the Parent Company Financial Statements of Patsystems Plc for the year ended 31 December 2010 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the Directors are responsible for the preparation of the Parent Company 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 Parent Company 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 Ethical Standards for Auditors.

This Report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion the Parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Parent Company Financial Statements are prepared is consistent with the Parent Company Financial Statements.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 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.

Other Matter

We have reported separately on the Group financial statements of Patsystems Plc for the year ended 31 December 2010.



Nigel Reynolds (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 February 2011

Financial Statements

Company Balance Sheet

at 31 December 2010

	Notes	2010 £'000	2009 £'000
FIXED ASSETS			
Investments	4	1,315	1,605
CURRENT ASSETS			
Debtors	5	8,552	6,932
Cash at bank and in hand		4	28
		8,556	6,960
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	6	(70)	(65)
Net current assets		8,486	6,895
Net assets		9,801	8,500
CAPITAL AND RESERVES			
Share capital	7	1,866	1,853
Share premium account	9	4,641	4,493
Other reserves	9	50	50
Retained earnings	9	3,244	2,104
Total equity	9	9,801	8,500

The financial statements on pages 54 to 59 were approved by the Board of Directors on 7 February 2011.



David Webber
Chief Executive Officer



Martin Thorneycroft
Finance Director

Patsystems Plc, Company Number: 4498002

Notes to the Financial Statements

1. Accounting Policies

The financial statements have been prepared on the historical cost basis of accounting and in accordance with applicable accounting standards in the United Kingdom.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Investments

Investments in subsidiaries are stated at cost less any provision for impairment. Where an acquisition satisfies the provisions of sections 611 to 616 of the Companies Act 2006, merger relief is available and the investment is stated at nominal value of shares issued plus the value of any other consideration.

1.2 Operating Leases

Costs in respect of operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

1.3 Current and Deferred Income Taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Balance Sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised in respect of 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.

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 sufficient taxable profits to utilise carried forward tax losses and against which the reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

1.4 Related Party Transactions

Financial Reporting Standard (FRS) 8, 'Related Party Transactions', requires the disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of exemptions under FRS 8 not to disclose transactions between Group companies.

1.5 Share-Based Payments

The Group operates two share options schemes; the Enterprise Management Incentive Scheme and the 2003 Share Option Scheme (Inland Revenue unapproved).

The fair value of options is recognised as an employee benefit expense with a corresponding increase in reserves over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1.6 Cash Flow Statement

The Company is the Parent Company of the Patsystems plc Group and is included in the consolidated financial statements of Patsystems plc. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

1.7 Dividend Distributions

Final dividend distributions to the Company's shareholders are recognised as liabilities in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividend distributions to the Company's shareholders are recognised as liabilities in the Company's financial statements when paid.

2. Directors and Employees

The Parent Company does not employ any Directors or employees.

Financial Statements

Notes to the Financial Statements continued

3. Profit and Loss Account

The profit for the year dealt with in the accounts of the Company was £1,972,000 (2009: £799,000).

The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006, and have not presented a Profit and Loss Account for the Company alone.

4. Investments

	£'000
Investment in subsidiary undertaking	
At 1 January 2010	1,605
Disposals	(290)
At 31 December 2010	1,315

During the year Patsystems Plc transferred all of the assets and liabilities of Tamesis Limited to Patsystems (UK) Limited. The above reduction of £290,000 relates to the investment in Tamesis Limited.

The Investment in Subsidiary Undertakings Represents:

1. A 100% investment in respect of voting rights and nominal value in Patsystems Holdings Limited, a company incorporated in England and Wales.

The historical cost of the investment in the shares of Patsystems Holdings Limited is £11,180,000. Under the Scheme of Arrangement the subsidiary undertaking returned capital to the Company amounting to £9,865,000, and the cost of the investment has been reduced accordingly to reflect this.

The following subsidiary undertakings were wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and perform the sale and support of electronic trading systems:

Patsystems (UK) Ltd	–	incorporated in England and Wales
Patsystems (NA) LLC	–	incorporated in United States of America
Patsystems Pte Ltd	–	incorporated in Singapore
Patsystems Pty Ltd	–	incorporated in Australia
Patsystems GmbH	–	incorporated in Germany
Patsystems Hong Kong Limited	–	incorporated in Hong Kong

The following subsidiary is wholly owned by Patsystems Holdings Limited in respect of voting rights and nominal value of issued shares and acted as a holding company:

Professional Automated Trading Systems BV (incorporated in The Netherlands).

Professional Automated Trading Systems BV owns 100% of voting rights and nominal value of issued shares in Patsystems (Japan) KK (incorporated in Japan), which performs the sale and support of electronic trading systems.

Patsystems (Japan) KK owns 100% of voting rights and nominal value of issued shares in Patsystems (Ireland) Ltd (incorporated in the Republic of Ireland), which acts as a holding company.

5. Debtors

	2010 £'000	2009 £'000
Amounts owed by Group undertakings	8,531	6,909
Other debtors	13	16
Prepayments and accrued income	8	7
	8,552	6,932

6. Creditors: Amounts Falling Due Within One Year

	2010 £'000	2009 £'000
Trade creditors	10	1
Accruals and deferred income	60	64
	70	65

None of the creditors are secured.

7. Share Capital

	2010 £'000	2009 £'000
Authorised		
<i>Ordinary shares of 1p each</i>		
At 1 January and 31 December – 250,000,000 shares	2,500	2,500
<i>Deferred shares of 1p each</i>		
At 1 January and 31 December – 2 shares	–	–
<i>Redeemable preference shares of £1 each</i>		
At 1 January and 31 December – 49,998 shares	50	50
Allotted, called up and fully paid		
<i>Ordinary shares of 1p each</i>		
At 1 January – 185,330,693 shares	1,853	1,795
Allotted under share option schemes – 1,332,601	13	58
At 31 December – 186,663,294 shares	1,866	1,853

The 1p ordinary shares are listed on the AIM market. They have one voting right per share.

Deferred shares of 1p each

At 1 January and 31 December – 2 shares	–	–
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8. Share Option Schemes

The following options to purchase 1p Ordinary shares in Patsystems plc were granted, exercised, lapsed and outstanding during the year:

Exercise price in pence	Outstanding at 1 January 2010	Granted in year	Exercised in year	Lapsed in year	Outstanding at 31 December 2010	Exercisable at 31 December 2010	Effective dates
5.08p	558,000	–	(378,000)	–	180,000	180,000	Note a
9.50p	90,000	–	(45,000)	–	45,000	45,000	Note a
14.25p	403,553	–	(197,453)	(44,400)	161,700	161,700	Note a
14.50p	496,951	–	–	–	496,951	496,951	Note a
15.25p	775,737	–	(60,000)	–	715,737	715,737	Note a
15.58p	670,400	–	(275,600)	(30,000)	364,800	364,800	Note a
17.50p	30,000	–	–	–	30,000	30,000	Note a
27.75p	250,000	–	–	–	250,000	250,000	Note c
29.00p	444,827	–	–	–	444,827	444,827	Note c
	3,719,468	–	(956,053)	(74,400)	2,689,015	2,689,015	
14.25p	179,143	–	(56,168)	(89,375)	33,600	33,600	Note b
14.50p	83,089	–	–	–	83,089	83,089	Note b
15.25p	344,263	–	–	–	344,263	344,263	Note b
15.58p	595,700	–	(320,380)	(258,520)	16,800	16,800	Note b
18.00p	500,000	–	–	–	500,000	500,000	Note b
27.75p	1,000,000	–	–	–	1,000,000	1,000,000	Note d
29.00p	1,655,173	–	–	–	1,655,173	1,655,173	Note d
	4,357,368	–	(376,548)	(347,895)	3,632,925	3,632,925	
Total all schemes	8,076,836	–	(1,332,601)	(422,295)	6,321,940	6,321,940	

Financial Statements

Notes to the Financial Statements continued

8. Share Option Schemes continued

Note a: These options were granted under the first, second and third awards of the Enterprise Management Incentive (EMI) Scheme. These options are now 100% exercisable.

Note b: These options were granted under the second and third awards of Part B (Inland Revenue Unapproved) of the Patsystems plc 2003 Share Option Scheme. These options are now 100% exercisable.

Note c: These options were granted under a special award of the EMI Scheme. These options are now 100% exercisable.

Note d: These options were granted under a special award of Part B (Inland Revenue Unapproved) of the Patsystems plc 2003 Share Option Scheme. These options are now 100% exercisable.

No share options were granted in the year (2009: nil).

For the options that were exercised during the year, the weighted average share price at the date of exercise was 24p (2009: 21p).

The weighted average remaining contractual life of options outstanding at the year end is 5.2 years (2009: 5.7 years).

The total fair value that was charged to the income statement in relation to the share options was £60,000 (2009: £261,000), all of which related to equity settled share-based payment transactions.

The fair values of the options have been calculated using the Binomial Model. The model takes into account the following factors in determining the fair value of an option:

(a) Share Price and Exercise Price

Share prices are closing share prices as at the date of grant. Exercise prices are listed in the above schedule.

(b) Expected Term of the Options

It is assumed that the expected life of the options under consideration is 5 years.

(c) Volatility

Volatility of the Company's share price has been calculated as the annualised standard deviation of daily continuously compounded returns on the Company's stock, derived from the Company's historical share prices, adjusted for splits, over 5 years back from each date of grant.

(d) Risk-Free Interest Rate

The risk-free rates of interest are assumed to be the yield to maturity on a UK Gilt Strip with the term to maturity equal to the expected life of the option.

(e) Dividends

The valuations take account of the expected future dividend yield at the date of each grant.

The table below sets out the volatilities, risk-free interest rates and dividend yields applied in each valuation:

Date of grant	Volatility (%)	Risk-free interest rate (%)	Dividend yield (%)
24 February 2003	77.8009%	4.6922%	0.00%
13 March 2003	78.3590%	4.7175%	0.00%
30 June 2003	78.4194%	4.6412%	0.00%
27 October 2003	79.8321%	5.7891%	0.00%
01 January 2004	78.6748%	5.4125%	0.00%
30 July 2004	73.6821%	5.8602%	0.00%
27 August 2004	71.7764%	5.6660%	0.00%
16 November 2004	58.9201%	5.2789%	0.00%
04 February 2005	56.6301%	5.1507%	0.00%
17 March 2005	52.4971%	5.4148%	0.00%
06 October 2005	54.9819%	4.7689%	2.00%
23 November 2005	49.8819%	4.8322%	2.00%
14 December 2005	50.0097%	4.8764%	2.00%
14 February 2006	50.1501%	4.7515%	2.00%
19 April 2007	48.4035%	5.2980%	1.00%
7 December 2007	30.0527%	4.5550%	1.00%
31 December 2007	30.9369%	5.6204%	1.00%

9. Share Capital and Reserves

	At 1 January 2010 £'000	Shares issued in the year £'000	Earnings for the year £'000	Dividends paid £'000	Share compensation expense £'000	At 31 December 2010 £'000
Paid up share capital	1,853	13	–	–	–	1,866
Share premium	4,493	148	–	–	–	4,641
Other reserves	50	–	–	–	–	50
Retained earnings	2,104	–	1,972	(892)	60	3,244
	8,500	161	1,972	(892)	60	9,801

10. Dividends

The dividends paid in the year were as follows:

	2010 £'000	2009 £'000
Second interim dividend in respect of the year ended 31 December 2009 at 0.28p per share (2009: 0.237p)	519	427
Interim dividend at 0.2p per share (2009: 0.145p)	373	262
	892	689

A second interim dividend in respect of the year ended 31 December 2010 of 0.35p per share amounting to a total dividend of £653,000, is to be paid on 8 April 2011. These financial statements do not reflect this dividend payable.

Financial Statements

Directors and Advisers

Directors

Richard Last	Chairman and Non-Executive Director
David Webber	Chief Executive
Martin Thorneycroft	Finance Director
John Priestley	Non-Executive Director, Chairman of the Audit Committee
Stewart Douglas-Mann	Non-Executive Director, Chairman of the combined Remuneration and Nominations Committee

Company Secretary

Martin Thorneycroft

Advisers

Broker and nominated adviser	Numis Securities
Lawyers	DLA Pipers Vedder Price, Kaufman & Kammholz
Registered auditors	PricewaterhouseCoopers LLP
Principal bankers	Barclays Bank plc
Registrars	Computershare Services plc PO Box 82 The Pavillions Bridgewater Road Bristol BS99 7NH

Corporate Details

Registered office: Riverside House, 2A Southwark Bridge Road, London SE1 9HA
Company number: 4498002
Country of incorporation: England and Wales
Website: www.patsystems.com
Stock Exchange symbol: pts



powers trades. builds exchanges. manages risk.

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