

11 March 2009

PRELIMINARY RESULTS
For the year ended 31 December 2008

Brady plc (the “Company” or the “Group”), the global provider of trading, risk management and settlement solutions to the metals and commodities industries, announces its preliminary results for the year to 31 December 2008.

Financial Summary:

	2008	2007
	£'000	£'000
Revenue	6,167	5,711
Operating profit	698	322
Profit before taxation	1,039	639
Cash and cash equivalents	7,828	5,957
Basic earnings per share (pence)	2.73	1.82
Diluted earnings per share (pence)	2.49	1.64
Proposed dividend per share (pence)	1.20	1.10

Highlights:

- Sales revenue at £6.2 million increased 8% over the 2007 level of £5.7 million
- 36% growth in recurring maintenance revenues, now comprising 35% of total revenues
- Nine significant new Trinity licence agreements signed in 2008, compared to three in 2007
- Operating profit more than doubled to £0.7 million and profit before taxation increased 63% to £1.0 million
- Proposed final dividend increased by 9%
- Strong balance sheet with £7.8 million of cash resources compared to £6.0 million at 31 December 2007. Cash of £6.9 million as at 28 February 2009
- Comsoft acquisition completed in January 2009. Solid market opportunity to continue to deliver organic growth and seek complimentary acquisitions

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CHAIRMAN'S STATEMENT

Overview

The Group's principal activity is the global provision of trading, risk management and settlement solutions to the metals and commodities sectors, through the delivery of customer focused software and services. The Group addresses the requirements of the metals markets, both base and precious, and the soft commodities markets.

I am pleased to provide a brief summary of the financial and operational highlights for 2008 and to provide an outlook for 2009.

Financial Highlights

- Group revenues increased by 8% to £6.2 million (2007: £5.7 million), which included £2.2 million of recurring maintenance revenues (2007: £1.6 million).
- Operating profit increased by 117% to £0.7 million (2007: £0.3 million). Profit before taxation increased by 63% to £1.0 million (2007: £0.6 million), demonstrating tangible success of the recent reorganisation programme and investment in building the Group's sales teams.
- Basic earnings per share have increased by 50% to 2.73 pence (2007: 1.82 pence). On a fully diluted basis this equates to an increase of 52% to 2.49 pence (2007: 1.64 pence).
- Cash resources at the end of the year were £7.8 million, an increase of £1.8 million on last year's £6.0 million, contributing to a very strong balance sheet.
- 36% growth in recurring maintenance revenues, now comprising 35% of total revenues.

Operational Highlights

2008 has seen a number of successful commercial activities:

- Nine significant new Trinity licence deals were signed in 2008, compared to three in 2007.
- Four new Trinity clients have gone live.

The Group reorganised its internal resources at the end of 2007 in order to focus its efforts aggressively towards sales order and revenue generation. The organisational changes have been successfully implemented, as demonstrated in the operational and financial highlights above. The Group is also encouraged to see a more advanced pipeline which, in monetary terms, has more than doubled in the last twelve months. The Group is well positioned to continue to accelerate growth in its order book and now has six quota carrying account managers, compared to two that were in place prior to the reorganisation. The Group has also successfully established a US-based service team in 2008 and commenced its expansion into Asia in January 2009.

The Group completed the acquisition of Commodities Software (UK) Limited ("Comsoft") in January 2009, providing an attractive opportunity to help accelerate further growth.

Outlook

The metals and commodities markets have been the subject to much attention during 2008 given the dramatic price increases in recent years and subsequent reductions in recent months. There continue to be

more entrants to the London Metal Exchange (“LME”), which is a core market for the Group. Overall, the increase in activity in this area still appears to be strong for the coming years, particularly relative to other asset classes and in consideration of the general global credit crunch. Although the Board is mindful of potential delays in clients’ decision making in relation to new licence deals, it believes that the Group is well positioned in this marketplace.

The Group expects to continue to build its sales opportunity pipeline and to translate this into the execution of new licence contracts. In addition, the Group anticipates completing a number of implementations in 2009 in relation to the licence contracts secured in 2008. The Board therefore has good visibility of revenues in the first half of 2009.

People

I would like to thank all of our employees for their efforts during the past busy year in delivering this successful growth. Their continued commitment, loyalty and support will be vital to maintain the momentum of this progress.

Conclusion

The Board continues to see substantial and attractive market opportunities, in spite of the general economic conditions. The Group has a world leading position within the metals and mining sector and is well placed to continue to build on this. It has a strong product offering addressing the requirement to manage trading risk in the metals and mining sectors, a solid balance sheet and has built a quality customer base and excellent reputation over the years.

The Group has a clear strategy which is being executed, as summarised in the Chief Executive’s Review. The year has demonstrated tangible success following the reorganisation initiatives in 2007 and the investment in routes to market. The Board believes that the Group is well placed to aggressively capitalise on this excellent opportunity and build on the growth achieved in 2008. In addition, the Group will continue to look for further opportunities to use its strong balance sheet to enhance its product and customer base through selective acquisitions.

I look forward to reporting further positive progress.

Paul Fullagar
Chairman

CHIEF EXECUTIVE'S REVIEW

Our Markets

The Group is focused on the metals, both base and precious, and the soft commodities markets. In each area we believe that the trading conditions remain buoyant and anticipate that they should remain so for the foreseeable future. The credit crunch and deterioration in the equity markets has emphasised the need for effective risk management solutions and controls.

Furthermore, we have seen an increase in electronic trading, especially in the LME, which has seen the growth in LME Select transactions, which is driving the need for new systems. The introduction of the new LME SMART settlement system in 2009 is also providing a catalyst for change.

Overall, we expect that the demand in our markets should remain positive, although it should be recognised that the recession will likely cause general delays in the decision-making processes in some organisations.

Our Strategy

The Group's target markets are producers and fabricators, trading companies, and banks, brokers and hedge funds. For metals, our solutions offer coverage across the entire industry, from metal concentrates, through refined metals trading, to the most complex financial derivatives. For soft commodities, our solutions can process the full range of financially settled instruments, including complex OTC structures prevalent in that industry, to allow full analysis of trading risk.

Approximately 50% of our revenues derive from Europe, 40% from North America and the remainder from Asia. The Group has strengthened its presence in continental Europe and the Americas during 2008, including establishing a service organisation in North America. As previously indicated, the Group has more recently, in January 2009, established local operations in Asia in order to better support strategically important Asian and global clients.

Approximately 35% of our revenue derives from producers and fabricators, 30% from trading companies and 35% from banks and brokers. These markets are largely addressed by direct selling, but we will be looking to further develop relationships with partners, integrators and value added resellers (VARs) in 2009.

The Group's solutions provide support for traders, operations, settlements, risk and compliance in an integrated environment. This is critically important to ensure a greater control of clients' business, lowering cost of ownership and minimising the possibilities of operational risk.

Given the strength of its balance sheet, the Group continues to work with our advisors in driving and executing our acquisition strategy. We anticipate that the continuing turbulence in the credit markets and recessionary climate should favour companies such as Brady who are well placed to identify and execute acquisitions at valuations very attractive to them.

Our Operations

Organisation

Following the reorganisation in late 2007, the team has been significantly strengthened and focused in order to take advantage of the positive trading conditions. There are now six quota carrying sales executives, compared to two prior to the reorganisation, and there are also plans to hire at least one further sales executive in 2009.

The Group has a clear focus on North America, Europe, and now Asia for both sales and services, providing higher quality services to our clients in their own time zones.

The Group's overall capability has also been augmented by the introduction of enhanced product management processes and much tighter co-ordination between our development centres.

Marketing

Progress continues to be made in strengthening the Brady brand, including significantly more focus applied to marketing our products as well as press and analyst briefings, advertising, trade shows, marketing literature and client testimonials. This is continuing to translate into more incoming requests for information which we anticipate will ultimately create more leads in 2009.

Sales

The refinements that we have made to the value proposition and efforts in implementing targeted sales campaigns have shown tangible results in 2008, having led to nine significant new licence sales in 2008, all with leading organisations. This will be further enhanced by direct marketing sales campaigns in 2009.

We also plan to further expand our sales reach by working with third-party integrators and technology partners.

Products

In a busy year for product development, our product portfolio has continued to evolve in line with the needs of our customers.

For banks, brokers and traders there have been a number of significant developments to match the functionality of our applications with the latest process and regulatory changes brought in by the London Metal Exchange, such as management of steel contracts, LME matching and an LME Smart interface to enable direct links to other regulatory and exchange organisations. We will continue to strengthen our partnership with the LME as a key part of our strategy.

We are witnessing substantial growth in the trading of metal concentrates across the globe. For producers, the Group has completed the development of a new Concentrates module, which means that our solutions can now be used to manage both refined and unrefined material. This was further augmented in 2008 with the addition of Assaying, Tolling and Transportation functionality to further extend the Group's coverage in this market sector. The depth of functionality and our customer base was further enhanced following the acquisition of Comsoft in January 2009, as noted below.

We see the capture and effective analysis of trading risk as a critical component in the volatile and fast-moving commodities markets that we service:

- the Group's Value-at-Risk ("VaR") module targets the continued acceptance within the industry of VaR models to report enterprise risks;
- the Group's P&L Attrition module provides extensive analysis of P&L movements relative to changes in market data, minimising operation down-time; and
- the recently released Retrospective functionality offers a powerful forensic analysis tool through the reconstruction of any position back in time.

The message hub has also been completed and this lays the foundation for high performance messaging between our own components and third party applications, using FIX protocol. This is a key component of the Group's evolution to a service-orientated architecture and provides immediate benefits of increased scalability, lower cost of ownership and reduced operational risk through accurate high-performance data interfaces, opening the Group's solutions to order management and exchange connectivity.

From a technology perspective, the Group anticipates staying at the forefront of Microsoft and Oracle technology by deepening its use of .NET components and adoption of the Vista operating system. Oracle

11g and Oracle Standard will be rolled-out as will the use of Service Orientated Architecture. In addition, the Group has continued to work hard on significant performance improvements in key functional areas.

Services

The Group's objective remains to be a trusted adviser to all its clients, providing them with high quality consulting and development services and delivering projects on time and on budget. The fact that four new clients have gone live with the Group's solutions in 2008 is further testimony to our team's ability to deliver significant projects around the globe.

The Group remains committed to improving customer satisfaction. This involves partnering with our clients at all levels, the continuing roll-out of Prince 2 project management methodology for implementations, and extending automated testing of our solutions. The Group is also initiating further accreditation and training programs in 2009 and is working diligently on faster issue resolution and better documentation.

Comsoft Acquisition

In January 2009, the Group acquired Comsoft, a UK-based company providing software for the risk management and administration of raw materials or Concentrates for the metals market. Comsoft has been operating since 1984 and has clients in Europe and North America. The acquisition has a compelling strategic and financial rationale, offering the Group a greater depth of functionality and expertise in Concentrates, particularly aimed at mining and smelting companies and trading companies. It broadens the Group's own Concentrates product offering and provides an attractive opportunity to accelerate further growth.

In addition, the Group's expertise in metal trading and risk solutions combined with Comsoft's strength in raw materials solutions creates an excellent platform to drive revenue synergies.

Our Future

While there is currently uncertainty around banks' trading performances, the increased demand for risk management solutions and increased automation to drive cost savings should, we believe, lead to further growth during 2009. The Group is well positioned to capitalise on this opportunity. We are confident that solid foundations have been laid, early success in our business plan has been demonstrated, and the Group has a strong platform for ongoing growth and success in 2009 and beyond.

Gavin Lavelle
Chief Executive Officer

FINANCIAL REVIEW

Group Trading Performance

Revenue for the year increased by 8% to £6.2 million, of which £2.2 million of revenue derived from recurring maintenance (2007: £1.6 million). The revenue composition is summarised in the table below:

	<i>2008</i>		<i>2007</i>	
	<i>£ million</i>	<i>%</i>	<i>£ million</i>	<i>%</i>
Licences	2.1	34%	2.3	40%
Maintenance	2.2	35%	1.6	28%
Services	1.9	31%	1.8	32%
Total	6.2	100%	5.7	100%

The recurring maintenance component comprised 35% of total revenue (2007: 28%). As previously highlighted, there has been limited opportunity to recognise significant licence revenue in the earlier part of 2008 due to new contract licence revenues not being recognised until customer acceptance. Licence revenues have been recognised in relation to approximately half of the licence revenue from the new licence sales achieved in 2008, with the remainder being deferred for anticipated revenue acceptance and recognition in 2009.

The gross margin increased by 2% to 60% compared to the 2007 level of 58%, primarily as a result of a higher proportion of revenues being recurring support revenues and a greater level of productivity achieved by the services teams.

Selling and administrative expenses remained flat at £2.9 million, confirming the Board's commitment to contain the Group's cost base during the recent phase of reorganisation and investment in the sales force.

Operating profits increased to £0.7 million (2007: £0.3 million), representing an operating margin of 11% (2007: 6%).

Finance Income

Interest income from the Group's cash resources remained similar at £0.3 million (2007: £0.3 million).

Tax

The corporation tax charge for the year was £0.3 million (2007: £0.2 million), representing an effective tax rate of 28% (2007: 24%).

Earnings and dividends

Profit before tax increased to £1.0 million (2007: £0.6 million), representing a profit before tax margin of 17% (2007: 11%). Profit after tax increased to £0.8 million (2007: £0.5 million).

The weighted average number of shares in issue increased to 27.5 million (2007: 26.7 million). Basic earnings per share increased to 2.73 pence from 1.82 pence per share in 2007. Diluted earnings per share increased to 2.49 pence from 1.64 pence per share in 2007.

The proposed final dividend for the year has increased to 1.2 pence per share (2007: 1.1 pence per share), representing dividend growth of 9%. If approved at the forthcoming Annual General Meeting, the dividend will be paid on 26 May 2009 to members whose names appear on the register at the close of business on 24 April 2009.

Balance sheet

The group retains a very strong balance sheet, dominated by cash and cash equivalents with a relatively modest level of intangible assets.

Goodwill remained at £0.2 million. As required by IAS38 *Intangible assets* the Group capitalised £0.2 million (2007: £nil) of expenditure in relation to strategic software development programmes. The Group has a continued commitment to enhancing and expanding its offerings and the majority of expenditure in the year on research and development was expensed as incurred.

Trade and other receivables decreased to £1.8 million from £2.0 million. Payables increased to £3.4 million from £2.2 million, largely as a result of increased licence revenues secured under new contracts signed in the year but included within deferred income at the balance sheet date and anticipated to be recognised in 2009.

Cashflow

The Group had very strong operating cashflow, at £2.2 million (2007: £0.6 million). This continued the trend of generating operating cash ahead of operating profit, the latter being £0.7 million (2007: £0.3 million). Cash resources at the end of the year increased to £7.8 million (2007: £6.0 million) and compared to cash resources at 28 February 2009 of £6.9 million, which is stated after the deducting the full £1.5 million of cash in relation to Comsoft. The Group continues to have no debt.

Risk

The principal credit risk faced by the Group relates to trade receivables, although this risk is much reduced because the Group's principal customers are large institutions or companies. A significant proportion of the Group's revenues and expenses are denominated in pounds sterling. The Group has limited exchange risk and has not entered into any forward exchange contracts during the year.

Tony Ratcliffe
Finance Director

Consolidated Income Statement

For the year ended 31 December 2008

	2008	2007
	£'000	£'000
Revenue	6,167	5,711
Cost of sales	(2,484)	(2,401)
Gross profit	3,683	3,310
Selling and administrative expenses	(2,985)	(2,988)
Operating result	698	322
Finance income	341	317
Profit for the year before taxation	1,039	639
Tax expense	(289)	(153)
Net profit for the year	750	486
Attributable to shareholders of Brady plc	750	486
Earnings per share (pence)		
Basic	2.73	1.82
Diluted	2.49	1.64

Consolidated Balance Sheet

31 December 2008

	2008	2007
	£'000	£'000
Assets		
Non-current assets		
Goodwill	243	243
Other intangible assets	247	-
Long-term financial assets	-	15
Property, plant and equipment	301	287
	791	545
Current assets		
Trade and other receivables	1,751	2,031
Cash and cash equivalents	7,828	5,957
Total	9,579	7,988
Total assets	10,370	8,533
Equity		
Share capital	276	274
Share premium account	3,817	3,762
Merger reserve	680	680
Foreign exchange reserve	(19)	-
Equity reserve	309	216
Capital reserve	1	1
Retained earnings	1,896	1,447
Total Equity	6,960	6,380
Liabilities		
Current		
Trade and other payables	2,926	1,778
Current tax payable	484	375
	3,410	2,153
Total equity and liabilities	10,370	8,533

Consolidated Statement of Changes in Equity

31 December 2008

Equity attributable to shareholders of Brady plc:

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Equity reserve £'000	Foreign exchange reserve £'000	Capital reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2007	262	3,121	680	161	-	1	1,223	5,448
Profit for the year and total recognised income and expenditure for the year	-	-	-	-	-	-	486	486
Dividends	-	-	-	-	-	-	(262)	(262)
Increase in equity reserve in relation to options issued	-	-	-	55	-	-	-	55
Allotment of shares following exercise of share options	2	51	-	-	-	-	-	53
Allotment of shares following placing of shares	10	590	-	-	-	-	-	600
Balance at 31 December 2007	274	3,762	680	216	-	1	1,447	6,380
Exchange difference on consolidation and total recognised directly in equity	-	-	-	-	(19)	-	-	(19)
Profit for the year	-	-	-	-	-	-	750	750
Profit and total recognised income and expenditure for the year	-	-	-	-	(19)	-	750	731
Dividends	-	-	-	-	-	-	(301)	(301)
Increase in equity reserve in relation to options issued	-	-	-	93	-	-	-	93
Allotment of shares following exercise of share options	2	55	-	-	-	-	-	57
Balance at 31 December 2008	276	3,817	680	309	(19)	1	1,896	6,960

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	£'000	£'000
Operating activities		
Profit and total recognised income and expenditure for the year	731	486
Depreciation of property, plant and equipment	140	103
Impairment of long term financial assets	15	-
Impairment of goodwill	-	71
Interest receivable	(341)	(317)
Employee equity settled share options	93	55
Changes in trade and other receivables	259	255
Change in trade and other payables	1,257	(185)
Taxes refunded	21	115
	<hr/> 2,175	<hr/> 583
Investing activities		
Additions to property, plant and equipment	(154)	(251)
Additions to capitalised development	(247)	-
Interest received	341	317
	<hr/> (60)	<hr/> 66
Financing activities		
Proceeds from share issues	57	653
Dividends paid	(301)	(262)
	<hr/> (244)	<hr/> 391
Net changes in cash and cash equivalents	<hr/> 1,871	<hr/> 1,040
Cash and cash equivalents, beginning of year	5,957	4,917
Cash and cash equivalents, end of year	<hr/> 7,828	<hr/> 5,957

Selected explanatory notes:

1. Nature of operations and general information

Brady plc and its subsidiaries' principal activity is the provision of trading, risk management and settlement solutions to the metals and commodities industries, through the delivery of customer focused software and services

The Group provides the leading trading and risk management software for global commodity markets. On a single platform, the Group provides a complete integrated solution supporting entire commodities trading operations.

Brady plc, a limited liability company, is the Group's ultimate parent company. It is registered in England and Wales. The address of Brady plc's registered office, which is also its principal place of business, is 281 Cambridge Science Park, Milton Road, Cambridge, CB4 0WE. Brady plc's shares are listed on the London Stock Exchange's Alternative Investment Market (AIM). Brady plc's consolidated full year financial statements are presented in British pounds (£), which is also the functional currency of the ultimate parent company.

2. Accounting policies and changes thereto

Basis of preparation

The financial information included in this report does not constitute statutory accounts for the purposes of section 240 of the Companies Act 1985. The financial information contained in this statement has been extracted from the 2008 financial statements upon which the auditor's opinion is unqualified and does not include any statement under Section 237 of the Companies Act 1985.

These condensed consolidated preliminary financial statements have been prepared in accordance with IFRS as adopted by the European Union and under the historical cost convention. The measurement bases and principal accounting policies for the Group are set out below:

Basis of consolidation

The consolidated financial statements consolidate those of the Company and of its subsidiary undertakings at the balance sheet date. Subsidiary undertakings are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the activities, which is considered to represent control. The Group obtains and exercises control through voting rights.

Profits or losses on intra-Group transactions are eliminated in full. Acquisitions of subsidiaries are dealt with by the purchase method.

Business combinations

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Acquisition costs are the fair values at the date of exchange of assets given liabilities incurred or assumed and equity instruments issued by the Group in exchange for control and any costs directly attributable to the business combination.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then the identifiable assets, liabilities, contingent liabilities

and the cost of combination are re-assessed. Following the re-assessment, any profit or loss in excess is recognised immediately.

The Group has elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations prior to the date of transition, 1 January 2006. Accordingly the classification of the combination remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition as they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement.

When Brady plc acquired Colplan Systems Limited in 2004, there was a share-for-share exchange. The UK GAAP merger relief criteria were met and so a merger reserve was recognised.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired and is capitalised.

Goodwill is subject to annual impairment testing. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. The recoverable amount is tested annually or when events or changes in circumstances indicate that it may be impaired. The recoverable amount is the higher of the fair value less costs and the value in use in the Group. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount. In determining a value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the goodwill that have not already been included in the estimate of future cash flows.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then the identifiable assets, liabilities, contingent liabilities and the cost of combination are re-assessed. Following the re-assessment, any profit or loss in excess is recognised immediately.

Goodwill previously written-off under UK GAAP prior to the adoption of IFRS for the restated balance sheet of 1 January 2006 has not been reinstated. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

Revenue

Revenue comprises the value of sales (excluding trade discounts and VAT) of goods and services in the normal course of business. All revenue is measured at fair value of consideration. The Group has four sources of revenue and the policy on revenue recognition of each is as follows:

- Licence fee revenues are recognised on practical acceptance of the software, when all obligations have been substantially completed. This is when the customer has accepted the product, the risks and rewards of ownership have been transferred, it is probable that the economic benefits of the transaction will flow to the Group, all costs and revenue in relation to the transaction can reliably be measured and the Group has no further managerial involvement over the goods to the degree usually associated with ownership. To the extent that payments have been received in advance for licences, where practical acceptance has not yet been reached, these amounts are recognised as deferred income;
- Consulting and professional service fee revenues are recognised as the work is performed provided that the amount of revenue can be measured reliably, it is probable that the economic benefits of the work performed will flow to the Group and the costs involved in providing the service can be measured reliably;

- Maintenance and rental income are recognised over the period to which it relates provided that the revenue can be measured reliably, it is probable that the economic benefits of the work performed will flow to the Group and the costs involved in fulfilling the maintenance or service can be measured and it is probable that the maintenance or rental period will be completed; and
- Where revenue arises from customer specific-software development, or where specific customisation or modification of the software is required, then revenue is recognised as the revenue and costs of the contract progresses, the stage of completion of the contract can be reliably measured and it is probable that the remaining obligations on the project will be satisfied and so economic benefits will flow to the Group. Full provision is made for losses on contracts in the period in which the loss is first foreseen.

Interest

Interest is recognised using the effective interest method, which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying value of the financial asset.

Dividends

Dividends are recognised when the shareholders' right to receive payment is established.

Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs incurred are capitalised only when all the following conditions are satisfied:

- Completion of the intangible asset is technically feasible;
- The Group intends to complete the intangible asset and use or sell it;
- The Group has the ability to use the asset or sell it;
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Directors.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment, if applicable. Depreciation is calculated to write off the depreciable amount (cost less residual value) of all property, plant and equipment by equal instalments over their expected useful economic lives. The rates generally applicable are:

- | | |
|----------------------------|-------------|
| • Improvements to property | 25% on cost |
| • Computer equipment | 33% on cost |
| • Computer software | 33% on cost |

- Fixtures and fittings 25% on cost

Material residual value estimates are updated as required, but at least annually. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Financial assets

Financial assets are divided into the following categories: loans and receivables; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within

this category are measured subsequently at fair value, with changes in value recognised in equity, through the statement of changes in equity. Gains and losses arising from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

The designation of financial assets is re-evaluated and an assessment for impairment is undertaken at least at each balance sheet date.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

At each balance sheet date all financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability is de-recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Foreign currencies

Transactions in foreign currencies are translated into the functional currency of the individual entity within the Group at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the income statement.

The Group has taken advantage of the exemption of IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS.

Employee benefits

Defined contribution pension scheme: The pension cost charged against operating profits is the contributions payable to the group personal pension scheme in respect of the accounting period.

Short-term employee benefits, including holiday entitlement are included in current pension and other employee obligations at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Leased assets

All leases are regarded as operating leases as the risks and rewards of ownership are not transferred. Payments made under leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Share options

All share-based payment arrangements granted that had not vested prior to 1 January 2006 are recognised in the financial statements. The Group operates a number of employee share schemes under which it makes

equity-settled share-based payments to certain employees. None of the Group's plans feature any options for a cash settlement.

Where employees are rewarded using share-based payments, the fair values of employees' services are determined by reference to the fair value at the grant date of equity instruments issued by the Group. The fair value of these instruments (options) is determined using the binomial valuation model. The share-based payment is recognised as an expense in the income statement, together with a corresponding credit to a share-based payment reserve in equity. This expense is incurred on a straight-line basis based on the Group's estimate of the number of shares that will vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded in the share premium account.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares;
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- "Merger reserve" represents the merger reserve set up in relation to the accounting for the acquisition of Colplan Systems Limited in 2004 that was present under UK GAAP and exempt from reclassification on transition to IFRS;
- "Capital reserve" represents the capital reserve set up to account for shares redeemed or purchased wholly out of distributable profits that was present under UK GAAP and exempt from reclassification on transition to IFRS;
- "Equity reserve" represents the reserve in relation to share options issued but not yet exercised;
- "Foreign exchange reserve" represents the exchange difference on consolidation of investments in overseas subsidiaries; and
- "Retained earnings" represents retained profits.

For further information, please refer to Brady plc's Consolidated Financial Statements 2007, which have been filed with the Registrar of Companies and are available on the Companies website, www.bradyplc.com

3. Segment analysis

The Group has one principal activity and makes sales to a variety of global destinations. An analysis of sales revenue by geographical market is given below:

	2008	2007
	£'000	£'000
United Kingdom	2,592	2,350
Rest of Europe	528	750

North America	2,587	2,503
Rest of World	460	108
	6,167	5,711

Within this one activity, the Group generates revenue from software licence sales, recurring maintenance fees and the provision of consulting and development services. Revenues can be analysed as below:

	2008	2007
	£'000	£'000
Software licence sales	2,087	2,282
Recurring maintenance fees	2,147	1,582
Consulting services	1,179	1,185
Development services	754	662
	6,167	5,711

The management of the Group do not analyse the net assets according to revenue type.

4. Share issues

The Company made allotments of 210,000 ordinary 1p shares during the year on the exercise of various share options. This increased the Company's ordinary shares issued and fully paid at the end of the year by 210,000 (2007: 1,166,000).

5. Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Brady plc divided by the weighted average number of shares in issue during the year. All earnings per share calculations relate to continuing operations of the Group.

	Profits attributable to shareholders	Weighted average number of shares	Basic profit per share amount in pence
Year ended 31 December 2008	750,000	27,519,550	2.73
Year ended 31 December 2007	486,000	26,742,316	1.82

The calculation of the diluted earnings per share is based on the profits attributable to the shareholders of Brady plc divided by the weighted average number of shares in issue during the year, as adjusted for dilutive share options. All earnings per share calculations relate to continuing operations of the Group.

	Dilutive options	Anti-dilutive options	Diluted profit per share amount in pence
Year ended 31 December 2008	2,575,853	1,571,526	2.49
Year ended 31 December 2007	2,852,423	200,000	1.64

The reconciliation of average number of ordinary shares used for basic and diluted earnings per share is as below:

	2008	2007
Weighted average number of ordinary shares used for basic earnings per share	27,519,550	26,742,316
Weighted average number of ordinary shares under option	2,575,853	2,852,423

Weighted average number of ordinary shares used for diluted earnings per share

30,095,403	29,594,739
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6. Dividends

	2008	2007
	£'000	£'000
Dividend on ordinary shares proposed after the year end	331	301

During 2008, Brady plc paid dividends of £301,000 to its shareholders (2007: £262,000). This represented a payment of 1.1 pence per share (2007: 1 pence per share).

The Directors propose the payment of a dividend in 2009 of £331,000 equating to 1.2 pence per share (2008: £301,000 equating to 1.1 pence per share). As the distribution of dividends by the Company requires approval of the shareholders, no liability in this respect is recognised in the 2008 consolidated financial statements. No income tax consequences are expected to arise as a result of this transaction at the Group level.

7. Post balance sheet acquisition

On 9 January 2009 the Company acquired 100% of the ordinary share capital of Commodities Software (UK) Limited and its wholly owned subsidiary Coastdata Limited (together "Comsoft"), both UK based companies providing software for the risk management and administration of raw materials or 'concentrates' for the metals market. Comsoft has been operating since 1994 and its clients are based in Europe and North America. The Company has not yet reviewed the draft completion accounts it has received but the following table sets out the estimated book value and estimated fair value to the Group of the assets and liabilities acquired.

	Estimated book value £'000	Estimated fair value adjustments £'000	Estimated fair value to the Group £'000
Property, plant and equipment	2	-	2
Intangible assets	269	(269)	-
Cash and cash equivalents	504	-	504
Trade and other receivables	304	(108)	196
Trade and other payables	(391)	-	(391)
Net identifiable assets and liabilities	688	(377)	311

Consideration:

Cash paid and estimated to be paid	1,500
Cash estimated to be paid in relation to surplus working capital	417
Direct costs incurred	169
Estimated intangible assets and goodwill on acquisition	<u>1,775</u>

The Group has not yet finalised the fair valuation of certain intangible assets acquired. The estimated fair value adjustments included above were made to recognise the anticipated adjustments in relation to the elimination of the investment in a subsidiary company on consolidation and the alignment of Comsoft's revenue recognition policies with those of the Group.

8. Financial Statements

Copies of the annual return and accounts will be posted to shareholders shortly and will be available from the Company's registered office at 281 Cambridge Science Park, Milton Road, Cambridge, CB4 0WE and on the Company's website www.bradypc.com