3202152

2e2 Managed Operations Limited

(formerly Netstore (UK) Limited)

Report and Financial Statements

31 December 2009

Registered No 3202152

Directors
N P Grossman
M S McVeigh
T W Burt

Secretary
N P Grossman

Auditors
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
Berkshire RG1 1YE

Registered Office
The Mansion House
Benham Valence
Newbury
Berkshire RG20 8LU

Directors' report

Registered No 3202152

The directors present their report and financial statements for the year ended 31 December 2009

Results and dividends

The profit for the year after taxation amounted to £2,418,782 (2008 Loss £5,146,807) The directors do not recommend a final dividend

Principal activity and review of the business

On 1 January 2009, the assets and liabilities of 2e2 Managed Operations Limited were transferred in full to 2e2 UK Limited During the period the company has not traded and the directors do not envisage that the company will trade in the foreseeable future

Directors

The directors who served the company during the year were as follows

T W Burt
N Grossman
M McVeigh

None of the directors held interests in the share capital of the company at 31 December 2009

T W Burt, N P Grossman and M S McVeigh are also directors of 2e2 Holdings Limited, the company's ultimate holding company, and their interests in the share capital of that company are disclosed in its financial statements

Directors' qualifying third party indemnity provision

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

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Employee involvement

The group maintain a practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group

Directors' report

Registered No 3202152

Principal risk and uncertainties

Discussed below are the group's major business risks, together with systems and initiatives in place to address them

Market

The IT services market is subject to fluctuations of demand by customers These fluctuations are linked to the economic cycle and changes in the spending patterns of customers In addition, the group works with a number of key vendors and it is important to maintain strong relationships and terms of business with these partners

Operational

This relates to the risk of financial loss resulting from internal processes, people and systems The group manages this risk through appropriate internal controls and proactive intervention, such as management reporting systems, insurances, business interruption and disaster recovery planning

Liquidity

This relates to the risk that the group is unable to fund its requirements because of insufficient banking facilities The group manages liquidity risk via a revolving credit facilities and long term debt During the year the group refinanced its bank facilities to fund the acquisition of Netstore

Credit risk

This relates to the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation Group policies are aimed at minimising such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures

Key performance indicators

The senior management of the company focus on a number of key performance indicators These include sales bookings and billings, the value of contracted annuity revenues, gross margins and staff utilisation These, along with other measures, are monitored regularly with explanations sought for variances against expectations Management have reviewed the key performance indicators during the year and are satisfied with the results

Employees

The company maintains a practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the company may continue

It is the policy of the company that training, career development and promotion opportunities be available to all employees

Going concern

The directors, after making appropriate enquiries, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future For this reason, the directors continue to adopt the going concern basis in preparing the financial statements

Directors' report

Registered No 3202152

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the Board

T W Burt

Director

30 July 2010

Statement of directors' responsibilities

The dırectors are responsıble for preparıng the Dırectors' Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare the financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law) Under company law the dırectors must not approve the financıal statements unless they are satısfied that they gıve a true and faır vıew of the state of affaırs of the company and of the profit or loss of the company for that perıod In preparıng these financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply then consıstently,
- make ȷudgments and accountıng estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subȷect to any materıal departures dısclosed and explaıned ın the financıal statements, and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınappropriate to presume that the company wıll contınue ın busıness

The dırectors are responsıble for keepıng adequate accountıng records that are sufficıent to show and explaın the company's transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the company and enable them to ensure that the financıal statements comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

Independent auditors' report

to the members of 2e2 Managed Operations Limited

We have audited the financial statements of 2e2 Managed Operations Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 22 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)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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 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 financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- 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 financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of 2e2 Managed Operations Limited

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

Ernst + Young LLP

Kevin Harkin (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
30 July 2010

Profit and Loss Account

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	-	28,741,137
Cost of sales		-	(14,613,922)
Gross profit		-	14,127,215
Selling and distribution costs		-	(9,025,821)
Administrative expenses		(2,707,513)	(4,461,944)
Operating (loss)/profit before exceptional items	3	(2,707,513)	639,450
Exceptional items – Written off of work in progress		-	(89,221)
– Restatement costs		-	(383,251)
Exceptional items		-	(472,472)
Operating (loss)/profit before restructuring costs		(2,707,513)	166,978
Cost of fundamental restructuring	4	-	(1,730,138)
Operating loss		(2,707,513)	(1,563,160)
Gain/(loss) on disposal of assets		5,126,295	(783,757)
Investment income	7	-	50,513
Interest payable	8	-	(346,252)
Profit/(loss) on ordinary activities before taxation		2,418,782	(2,642,656)
Tax on profit/(loss) on ordinary activities	9	-	(2,504,151)
Profit/(loss) for the financial year	18	2,418,782	(5,146,807)

All results arose from discontinued operations

There were no recognised gains or losses other than the profit for each financial year, and accordingly no statement of total recognised gains and losses is presented

Balance Sheet

at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	10	–	12,028,457
Investments	11	–	2,707,513
		–	14,735,970
Current assets			
Debtors due within one year	12	1	48,172,467
Cash at bank and in hand		–	837,247
		1	49,009,714
Creditors amounts falling due within one year			
Deferred income		–	(4,867,571)
Other creditors	13	–	(59,200,706)
		–	(64,068,277)
Net current liabilities		–	(15,058,563)
Total assets less current liabilities		1	(322,593)
Creditors amounts falling due after more than one year	14	–	(237,840)
Provisions for liabilities			
Provision for liabilities and charges	16	–	(1,858,349)
Net assets		1	(2,418,782)
Capital and reserves			
Called up share capital	17	612,733	612,733
Share premium account	18	475,327	475,327
Share based payment reserve	18	–	–
Profit and loss account	18	(1,088,059)	(3,506,842)
Equity shareholders' funds/(deficit)		1	(2,418,782)

Approved by the Board

T W Burt

Director

30 July 2010

Notes to the financial statements

at 31 December 2009

1. Accounting policies

Basis of preparation
The financial statements are prepared under the historical cost convention

Going concern
The directors, after making appropriate enquiries, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future For this reason, the directors continue to adopt the going concern basis in preparing the financial statements

Revenue recognition
Revenue is largely derived from managed application services under long-term contracts Other revenues are derived from consultancy and implementation services and software and hardware sales

For managed application services, revenue is recognised in the profit and loss account over the period to which the sales obligations are fulfilled under the related sales contract Revenue from consultancy and implementation services is recognised on a percentage to completion basis, comparing at each period end the actual time spent on the project with total estimated time to completion

Revenues from software and hardware are recognised at the time of shipping to the customer

Deferred income
Certain amounts are invoiced to customers in advance of services being provided These amounts are treated as deferred income, and are reflected on the face of the balance sheet

Group financial statements
The company has not prepared group financial statements as it is exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a wholly owned subsidiary of 2e2 Holdings Limited, registered in England and Wales, and its results are included in the consolidated financial statements of that company Accordingly these financial statements present information about the company on an individual basis and not as a group

Statement of cash flows
The company has taken advantage of the exemption available under FRS 1 not to prepare a statement of cash flows

Depreciation
Fixed assets are stated at historical cost Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows
Fittings and set up costs –over 1 to 3 years
Office and computer equipment –20% to 50 % on cost
Leasehold improvements –over the shorter of the lease term and 4 years
Long leasehold property –over 50 years

Finance costs directly attributable to the development of tangible fixed assets are capitalised as part of the cost of those assets
If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the Profit and Loss Account is taken into account in determining the profit or loss on sale or closure

Notes to the financial statements

at 31 December 2009

1. Accounting policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding

Rentals paid under operating leases are charged to income on a straight line basis over the lease term

Pensions

The company operates a defined contribution pension scheme Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

Capital instruments

Shares are included in shareholders' funds Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds

Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment

Notes to the financial statements

at 31 December 2009

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is credited to the profit and loss account over the period to which the obligation arises under the related sales contracts Turnover and profit before taxation is wholly attributable to the one continuing activity of the company

3. Profit/(loss) on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2009	*2008*
	£	*£*
Auditor's remuneration – audit services UK	–	60,650
– non audit services UK	–	40,498
Depreciation of tangible fixed assets – owned	–	2,326,081
– held on finance leases	–	1,190,531
Operating leases rentals – land and buildings	–	357,204
– motor vehicles	–	90,487
Foreign exchange gain	–	(11 747)

4 Cost of restructuring

	2009	*2008*
	£	*£*
Restructuring costs	–	999,905
Bracknell office closure	–	730,233
	–	1,730,138

Notes to the financial statements

at 31 December 2009

5. Directors' emoluments

	2009	*2008*
	£	*£*
Emoluments	–	3,631,724
Compensation for loss of office	–	120,496
	–	3,752,220

	2009	*2008*
	£	*£*
Company contributions paid to money purchase pension schemes	–	67,385
Number of directors who are members of money purchase pension schemes	–	6

The amounts paid in respect of the highest paid director are as follows

	2009	*2008*
	£	*£*
Emoluments	–	981,768
Company contributions paid to money purchase schemes	–	23,394

The emoluments of T W Burt, N P Grossman, M S McVeigh are satisfied by another company There is no director to whom retirement benefits are accruing under a defined contribution scheme

The highest paid director received emoluments of £nil during the year (2008 – £nil)

6. Staff costs

	2009	*2008*
	£	*£*
Wages and salaries	–	10,084,906
Social security costs	–	1,411,025
Other pension costs	–	315,968
	–	11,811,899

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

	2009	*2008*
	No	*No*
Selling and distribution	–	79
Administration	–	13
	–	92

Notes to the financial statements

at 31 December 2009

7. Investment income

	2009	2008
	£	£
Bank interest	–	50,513

8. Interest payable

	2009	2008
	£	£
Bank interest	–	39,529
Interest payable under finance leases and hire purchase agreements	–	94,650
Interest payable to group undertakings	–	207,717
Other interest	–	4,356
	–	346,252

9. Tax

(a)Tax on profit on ordinary activities

The tax charge is made up as follows

	2009	2008
	£	£
Current tax		
UK corporation tax on the profit for the year	–	–
Under provision in prior years	–	2,504,151
Tax on profit on ordinary activities	–	2,504,151

(b)Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 28% (2008 29%) The differences are explained below

	2009	2008
	£	£
Profit/(loss) on ordinary activities before tax	2,418,782	(2,642,650)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 – 29%)	689,353	(766,369)
Effects of		
Expenses not deductible for tax purposes	–	451,213
Capital allowances in advance of depreciation	–	(222,706)
Other timing differences	–	15,846
Unrelieved tax losses carried forward	–	522,016
Gain on transfer of assets not allowable for tax purposes	(1,460,944)	–
Losses arising in the year not relievable against current tax	771,591	–
Current tax for the year (note 9(a))	–	–

Notes to the financial statements

at 31 December 2009

9. Tax (continued)

(b) Factors affecting tax charge for the year (continued)

Deferred tax

	2009 £	*2008* £
Provision for deferred tax has been made as follows		
Accelerated capital allowances	–	–
Other timing differences	–	–
Undiscounted provision for deferred tax	–	–
Provision at start of the year	–	(94,189)
Deferred tax (credit)/charge in profit and loss account	–	94,189
Provision at end of the year	–	–

10 Tangible fixed assets

	Long leasehold Land and Buildings £	*Leasehold improve-ments* £	*Fittings & set up costs* £	*Office & computer equipment* £	*Motor vehicles* £	*Total* £
Cost:						
At 31 December 2008	1,642,900	318,733	6,473,340	7,481,537	–	15,916,510
Transferred to 2e2 UK Ltd	(1,642,900)	(318,733)	(6,473,340)	(7,481,537)	–	(15,916,510)
At 31 December 2009	–	–	–	–	–	–
Depreciation:						
At 31 December 2008	197,148	146,340	–	3,544,565	–	3,088,053
Transferred to 2e2 UK Ltd	(197,148)	(146,340)	–	(3,544,565)	–	(3,088,053)
At 31 December 2009	–	–	–	–	–	–
Net book value:						
At 31 December 2009	–	–	–	–	–	–
At 31 December 2008	–	–	–	–	–	–

Included in the above office and equipment assets are assets held under finance leases and hire purchase contracts with a net book value of £nil (2008 – £11,349,263)

Notes to the financial statements

at 31 December 2009

11. Investments

	Subsidiary undertakings
	£
Cost	
At 31 December 2008	2,707,513
Amounts written off during the year	(2,707,513)
At 31 December 2009	-

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

Name of company	Holdings	Proportion of voting rights and shares held	Nature of business
Netstore Group Limited	Ordinary shares	100%	Dormant
Netstore Security Limited	Ordinary shares	100%	Internet Security Provider

* Held by a subsidiary undertaking

12. Debtors

	2009	2008
	£	£
Trade debtors	–	2,849,898
Amounts owed by parent undertaking	1	42,089,594
Other debtors	–	908
Prepayments and accrued income	–	3,232,067
	1	48,172,467

13 Creditors: amounts falling due within one year

	2009	2008
	£	£
Trade creditors	–	3,071,846
Obligations under finance leases and hire purchase contracts (note 17)	–	547,366
Amount due to parent undertaking	–	53,618,423
Other taxes and social security	–	435,916
Other creditors and accruals	–	1,527,155
	–	59,200,706

The obligations under finance leases and hire purchase contracts are secured by those related assets

Notes to the financial statements

at 31 December 2009

14. Creditors: amounts falling due after more than one year

	2009	*2008*
	£	*£*
Obligations under finance leases and hire purchase contracts (note 15)	–	237,840
	–	237,840

15. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows

	2009	*2008*
	£	*£*
Amounts payable		
Within one year	–	591,134
In two to five years	–	252,318
	–	843,452
Less finance charges allocated to future periods	–	(58,246)
	–	785,206
Finance lease and hire purchase contracts are analysed as follows		
Current obligations (note 14)	–	547,366
Non-current obligations (note 15)	–	237,840
	–	785,206

All the finance lease obligations were transferred to other group companies as at 1 January 2009

16. Provisions for liabilities

Deferred taxation provided in the financial statements

	Long service	*Dilapidations*	*Total*
	£	*£*	*£*
At 1 January 2009	48,459	1,884,895	1,858,349
Transferred to other group companies	(48,459)	(1,884,895)	(1,858,349)
At 31 December 2009	–	–	–

Notes to the financial statements

at 31 December 2009

17. Authorised and issued share capital

Authorised	*2009* £	*2008* £
Ordinary shares of £1 each	619,476	619,476

Allotted, called up and fully paid	*2009* No	*2009* £	*2008* No	*2008* £
Ordinary shares of £1 each	612,733	612,733	612,733	612,733

18. Reconciliation of shareholders' funds and movements on reserves

	Share Capital £	*Share Premium account* £	*Profit and loss account* £	*Total* £
At 1 January 2009	612,733	475,327	(3,506,841)	(2,418,781)
Profit for the year	–	–	2,418,782	2,418,782
At 31 December 2009	612,733	475,327	(1,088,059)	1

19. Pension commitments

The company operates a defined contribution pension scheme for its directors and senior employees The assets of the scheme are held separately from those of the company in an independently administered fund

20. Other financial commitments

The company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings *2009* £	*Land and buildings* *2008* £	*Other* *2009* £	*Other* *2008* £
Operating leases which expire				
Within one year	–	–	–	7,627
Within two to five years	–	–	–	21,414
More than five years	–	238,136	–	173,804

All the commitments were transferred to other group companies as at 1 January 2009

Cross Guarantee

Following the acquisition of Morse plc by 2e2 Ltd on 21 June 2010, the company entered into a cross guarantee on 21 June 2010 for the amount of £85,000,000, in favour of certain investors

Notes to the financial statements

at 31 December 2009

21. Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the 2e2 group

22. Ultimate parent undertaking and controlling party

The ultimate parent company, controlling party and the largest company, which consolidates these financial statements, is 2e2 Holdings Limited, which is incorporated in the United Kingdom Copies of the group financial statements of 2e2 Holdings Limited can be obtained from The Mansion House, Benham Valence, Newbury, RG20 8LU

The smallest undertaking, which consolidates these financial statements, is 2e2 Group Limited Copies of the group financial statements of 2e2 group Limited can be obtained from The Mansion House, Benham Valence, Newbury, RG20 8LU

The immediate parent company is Netstore Limited