

BIS Limited

Directors' report and Consolidated Financial Statements

Registered number 04037250

Year ended
31 December 2010



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BIS Limited

DIRECTORS AND ADVISORS

DIRECTORS

David Pyemont
Samantha Keating
Anthony Grant

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

BANKERS

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

SOLICITOR

HRO Grant Dawe LLP
1 Hammersmith Grove
London
W6 0NB

REGISTERED OFFICE

1 Alie Street
London
E1 8DE

BIS Limited

DIRECTORS' REPORT

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2010

PRINCIPAL ACTIVITY

BIS Limited ("the Company") and its subsidiary undertakings ("the Group") are business continuity specialists offering flexible, integrated solutions incorporating global network connectivity, online data backup, managed hosting and VoIP

RESULTS AND DIVIDENDS

The consolidated loss for the year amounted to £311,000 (2009 £664,000) and the directors do not recommend the payment of an ordinary dividend for the year (2009 £ nil) These financial statements have been prepared on a going concern basis as described in note 1

BUSINESS REVIEW

BIS has successfully implemented solutions to over 250 corporate customers across sectors as varied as insurance, legal, shipping, finance, local government and media

The Group's key performance indicators for 2010 are detailed in the table below

| | 2010 £'000 | 2009 £'000 |
|--------------|---------------|---------------|
| Turnover | 15,569 | 14,785 |
| Gross profit | 5,622 | 5,414 |
| EBITDA | 1,967 | 1,843 |

EBITDA is earnings before interest, tax, depreciation and amortisation (note 3)

During 2010, the Group's position as a premium network independent data centre operator was consolidated and enhanced We invested in our data centre estate and network as well as delivering a number of enhancements to our products and services which will benefit our customers

Total turnover for 2010 increased by 5% compared with prior year The most significant factors impacting the Group's future performance are demand for premium data centre capacity and the new managed service products The Group's costs are largely fixed and therefore all new revenue attracts a high net margin We are focused on building a managed service business using our data centre estate as the enabler to offer a comprehensive portfolio of products and services

The Group has a high proportion of contracted recurring revenue

The Group is expected to continue to grow as customers seek cost savings and outsource their business critical infrastructure In addition, the Group is planning to offer additional managed service products to its client base

The Directors have reviewed business plans, with high levels of contracted recurring revenue plus known fixed costs, the current and future funding requirements will be met through the Group's cash flows

BIS Limited

DIRECTORS' REPORT

RISK AND UNCERTAINTIES

The Group policy for managing risk involves regular discussions covering all aspects of the business, including safety, environmental, legal, financial and employee related. Any material risks are evaluated as they arise and these are tracked and monitored until the risk has been mitigated.

The pressure of increased competition is a risk for the Group which means that key accounts could be lost to competitors. The risk is minimised by ensuring that clients are offered value adding services, competitive pricing and a first class level of customer service focused on long term relationships.

The market the Group trades in is subject to rapid technological change which may represent both opportunities and/or risks. However, it is not possible to predict with any certainty the effect of any changes on the Group's business.

Environmental Policy

The Group recognises that it does have an impact on the environment and is committed to managing and improving the way in which its activities affect the environment.

- Optimising the use of energy
- Encouraging re-use and recycling

DIRECTORS

The directors who held office during the year were as follows:

David Pyemont

Samantha Keating

Anthony Grant

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

CHARITABLE CONTRIBUTIONS AND POLITICAL DONATIONS

There were no charitable contributions, grants or political donations made during the year (2009 £nil).

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed.

By order of the Board



S Keating

Director

20th June 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BIS LIMITED

We have audited the group and parent financial statements of BIS Limited for the year ended 31 December 2010 which comprise the Consolidated Profit and Loss Account, the Group and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Company Reconciliation of Movements Group in Shareholders' Funds 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 Statement of Directors' Responsibilities 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 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 and 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 financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss and cash flows 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.

BIS Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BIS 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



Nigel Reynolds (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
Date 22 June 2011

BIS Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2010

| | <i>Notes</i> | 2010 £000 | 2009 £000 |
|--|--------------|----------------------------|----------------------------|
| Turnover | 1 | 15,569 | 14,785 |
| Cost of sales | | (9,947) | (9,371) |
| Gross profit | | 5,622 | 5,414 |
| Administrative expenses | | (5,344) | (5,365) |
| OPERATING PROFIT | | 278 | 49 |
| Interest receivable and similar income | | 55 | 61 |
| Interest payable and similar charges | 6 | (756) | (893) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | 3 | (423) | (783) |
| Taxation | 7 | 112 | 119 |
| LOSS FOR THE FINANCIAL YEAR | 18 | (311) | (664) |

BIS Limited Company loss for the year to 31 December 2010 was £490,000 (2009 £481,000) As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the parent Company has not been presented

There is no material difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented

All results derive from continuing operations

The notes on pages 14 to 30 form part of these financial statements

BIS Limited

CONSOLIDATED BALANCE SHEET at 31 December 2010

| | Notes | 2010 £000 | 2009 £000 |
|--|-------|--------------|--------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 9 | 12,371 | 13,557 |
| Intangible fixed assets | 10 | 1,588 | 1,687 |
| | | 13,959 | 15,244 |
| CURRENT ASSETS | | | |
| Debtors | 12 | 5,433 | 5,716 |
| Cash at bank and in hand | | 934 | - |
| | | 6,367 | 5,716 |
| CREDITORS: amounts falling due within one year | 14 | (7,365) | (7,133) |
| NET CURRENT LIABILITIES | | (998) | (1,417) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 12,961 | 13,827 |
| CREDITORS: amounts falling due after more than one year | 15 | (12,570) | (13,136) |
| NET ASSETS | | 391 | 691 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 17 | 414 | 414 |
| Share premium account | 18 | 6,248 | 6,248 |
| Profit and loss reserve | 18 | (6,271) | (5,971) |
| TOTAL SHAREHOLDERS' FUNDS | | 391 | 691 |

The notes on pages 14 to 30 form part of these financial statements

These financial statements on pages 8 to 30 were approved by the Board of Directors on 20th June 2011 and were signed on its behalf by

David Pyemont

Director

Registered number - 04037250

BIS Limited**COMPANY BALANCE SHEET**
at 31 December 2010

| | <i>Notes</i> | <i>2010</i> <i>£000</i> | <i>2009</i> <i>£000</i> |
|--|--------------|----------------------------|----------------------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 9 | 12,315 | 13,477 |
| Investments | 11 | 1,402 | 1,402 |
| | | 13,717 | 14,879 |
| CURRENT ASSETS | | | |
| Debtors | 12 | 5,187 | 5,819 |
| Cash at bank and in hand | | 934 | 61 |
| | | 6,121 | 5,880 |
| CREDITORS: amounts falling due within one year | 14 | (6,328) | (6,229) |
| NET CURRENT LIABILITIES | | (207) | (349) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 13,510 | 14,530 |
| CREDITORS: amounts falling due after more than one year | 15 | (12,493) | (13,034) |
| NET ASSETS | | 1,017 | 1,496 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 17 | 414 | 414 |
| Share premium account | 18 | 6,248 | 6,248 |
| Profit and loss reserve | 18 | (5,645) | (5,166) |
| TOTAL SHAREHOLDERS' FUNDS | | 1,017 | 1,496 |

The notes on pages 14 to 30 form part of these financial statements

These financial statements on pages 8 to 30 were approved by the Board of Directors on 20th June 2011 and were signed on its behalf by

David Pyemont

Director

BIS Limited

CONSOLIDATED CASH FLOW STATEMENT

| | | 2010 | 2009 |
|--|-------|-------|-------|
| | Notes | £000 | £000 |
| NET CASH FLOW FROM OPERATING ACTIVITIES | 19(a) | 2,492 | 657 |
| RETURNS ON INVESTMENTS & SERVICING OF FINANCE | | | |
| Interest received | | 55 | 61 |
| Interest paid | | (12) | (19) |
| Interest element of finance lease rental payments | | (804) | (874) |
| | | (761) | (832) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Purchases of tangible fixed assets | | (340) | (263) |
| | | (340) | (263) |
| NET CASH INFLOW/(OUTFLOWS) BEFORE USE OF LIQUID RESOURCES AND FINANCING | | 1,391 | (438) |
| FINANCING | | | |
| Repayment of loan | | (2) | (29) |
| Repayment of capital elements of finance leases | | (574) | (441) |
| | | (576) | (470) |
| INCREASE/(DECREASE) IN CASH IN THE YEAR | | 815 | (908) |

BIS Limited

CONSOLIDATED CASH FLOW STATEMENT

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | Notes | 2010 £000 | 2009 £000 |
|---|-------|----------------|----------------|
| Increase/(decrease) in cash in the year | | 815 | (908) |
| Repayment of bank debt | | 2 | 29 |
| Repayment of capital elements of finance leases | | 574 | 441 |
| | | <hr/> 1,391 | <hr/> (438) |
| Increase in net debt due to new finance lease | | (65) | (60) |
| MOVEMENT IN NET DEBT | | <hr/> 1,326 | <hr/> (498) |
| NET DEBT AT THE BEGINNING OF THE YEAR | | (14,035) | (13,537) |
| NET DEBT AT THE END OF THE YEAR | 19(b) | <hr/> (12,709) | <hr/> (14,035) |

BIS Limited

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS for the year ended 31 December 2010

Group

| | Notes | 2010 £000 | 2009 £000 |
|-------------------------------------|-------|--------------|--------------|
| Loss for the financial year | | (311) | (664) |
| FRS 20 reserve movement | 8 | 11 | 8 |
| Net decrease in shareholders' funds | | (300) | (656) |
| Opening shareholders' funds | | 691 | 1,347 |
| Closing shareholders' funds | | 391 | 691 |

Company

| | Notes | 2010 £000 | 2009 £000 |
|-------------------------------------|-------|--------------|--------------|
| Loss for the financial year | | (490) | (481) |
| FRS 20 reserve movement | 8 | 11 | 8 |
| Net decrease in shareholders' funds | | (479) | (473) |
| Opening shareholders' funds | | 1,496 | 1,969 |
| Closing shareholders' funds | | 1,017 | 1,496 |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

1. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements are prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and the provisions of the Companies Act 2006. The primary accounting policies adopted by the directors, which have been consistently applied, are described below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. All inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The Company acquired all the share capital of BIS Datacentres Limited (formerly known as Abovenet UK Limited) on 15 November 2006. The acquisition method of accounting has been adopted in relation to the acquisition. Under this method, the results of the subsidiary undertaking acquired in that year are included in the consolidated profit and loss account from the date of acquisition.

The Company acquired all the share capital of Baltic Internet Services Limited on 22 September 2000. The consolidated financial statements in the prior period were prepared by adopting Group reconstruction principles in accordance with Financial Reporting Standard 6 'Acquisitions and Mergers'. Merger accounting was used for the combination of the Company and its subsidiary, Baltic Internet Services Limited. Merger accounting presents the combining companies as if the new Group had always existed.

Going concern

The Directors believe that they have a reasonable basis for concluding that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the financial statements have been prepared on a going concern basis. The Group incurred large losses in its early stage of development, primarily due to initial infrastructure charges and depreciation. The Group cumulative losses to date are £6,271,000 (2009: £5,971,000). The Group is cash generative and although the Group has net current liabilities, if deferred revenue is excluded then the Group would be in a net current asset position.

Goodwill

Goodwill arises on the purchase of subsidiary undertakings and represents the excess of the fair value of the purchase consideration over the fair value of the separate net assets acquired. Goodwill is amortised on a straight line basis over its estimated useful life of 20 years.

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at costs less any provision for permanent impairment

Tangible fixed assets

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation

Depreciation is provided on tangible fixed assets on a straight-line basis from the time they are available for use, so as to write off their costs over their estimated useful lives taking into account any expected residual values

The useful lives assigned to tangible fixed assets are

| | |
|--------------------------------------|---------------------|
| Land and buildings (short leasehold) | Over the lease term |
| Network equipment | 3 to 5 years |
| Office fixtures and equipment | 3 years |
| Software licences | 1 to 3 years |

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The Group's depreciation policies are reviewed on a regular basis against the background of rapidly changing technology

Debtors

Debtors are stated in the balance sheet at estimated net realisable value. Net realisable value is the invoiced amount less provisions for bad and doubtful debts. Provisions are made specifically against debts where there is evidence of dispute or an inability to pay

Foreign currencies

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

Leases

Assets acquired under finance lease are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Equity compensation plan

In accordance with FRS 20, fair value calculations are derived using the Black-Scholes model. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. This is recognised as an expense over the vesting period, with a corresponding increase in other reserves. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimated, if any, in the profit and loss, with a corresponding adjustment to other reserves

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised without discounting, in respect of timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Cash

For the purpose of the cash flow statement, cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Turnover

Group turnover, which excludes Value Added Tax, comprises the value of services provided. Turnover from rentals is recognised evenly over the customer rental period. Turnover from installation and connection activities is recognised evenly over the customer contract or life of the asset. Turnover from calls is recognised in the consolidated profit and loss account at the time the call is made.

2. SEGMENTAL INFORMATION

No segmental information has been presented as the directors believe that the Company operates within one class of business, which is based entirely in the United Kingdom.

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAX

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Loss on ordinary activities before tax is stated after charging | | |
| Depreciation of owned fixed assets | 619 | 599 |
| Depreciation of assets under finance leases | 971 | 1,096 |
| Amortisation of goodwill | 99 | 99 |
| Operating lease rentals - other | 6,368 | 5,756 |
| - land and buildings | 1,258 | 1,381 |
| Exceptional income – onerous leases | - | (338) |

Auditors' remuneration

Amounts receivable by the auditors and their associates in respect of

| | | |
|---|----|----|
| Audit of financial statements of subsidiaries pursuant to legislation | 47 | 45 |
| Other services relating to taxation | 7 | 7 |
| | 54 | 52 |

The Company's share of the audit of its financial statements was £35,000 (2009 £27,000)

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

| EBITDA | <i>2010</i> <i>£000</i> | <i>2009</i> <i>£000</i> |
|---------------------------------|----------------------------|----------------------------|
| EBITA is stated before charging | | |
| Operating profit | 278 | 49 |
| Amortisation of goodwill | 99 | 99 |
| Depreciation charge | 1,590 | 1,695 |
| EBITDA | 1,967 | 1,843 |

4. DIRECTORS' EMOLUMENTS

| | <i>2010</i> <i>£000</i> | <i>2009</i> <i>£000</i> |
|-----------------------|----------------------------|----------------------------|
| Aggregated emoluments | 248 | 248 |

The Group did not contribute to a pension scheme or long term incentive scheme on behalf of any director during the period (2009 £ nil). The aggregate of emoluments of the highest paid director was £124,000 (2009 £124,000), and Company pension contributions of £nil (2009 £nil) were made to a money purchase scheme.

5. STAFF COSTS

| | <i>2010</i> <i>£000</i> | <i>2009</i> <i>£000</i> |
|-----------------------------------|----------------------------|----------------------------|
| Wages and salaries | 2,085 | 2,078 |
| Social security costs | 242 | 235 |
| Share-based payments (see note 8) | 11 | 8 |
| | 2,338 | 2,321 |

The average number of employees during the year was as follows

| | <i>2010</i> <i>No</i> | <i>2009</i> <i>No</i> |
|---------------------|--------------------------|--------------------------|
| Administration | 6 | 6 |
| Sales and marketing | 8 | 8 |
| Operations | 23 | 23 |
| | 37 | 37 |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Finance charges payable under finance leases | 744 | 874 |
| Bank interest payable | 12 | 19 |
| | <u>756</u> | <u>893</u> |

7. TAXATION

UK corporation tax

| | 2010 £000 | 2009 £000 |
|--------------------------------------|--------------|--------------|
| Current tax for the year | - | - |
| Deferred tax (see note 13) | 112 | 119 |
| Tax on loss from ordinary activities | <u>112</u> | <u>119</u> |

Factors affecting the tax credit for the year

The tax assessed for the year is higher than the standard effective rate of corporation tax in the UK for the year ended 31 December 2010 of 28% (2009 28%). The differences are explained below

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| <i>Current tax reconciliation</i> | | |
| Loss on ordinary activities before tax | <u>(423)</u> | <u>(783)</u> |
| Current tax at 28% (2009 28%) | (118) | (219) |
| Effects of | | |
| Expenses not deductible for tax purposes | 41 | 21 |
| Depreciation for the year in excess of capital allowances | 165 | 131 |
| (Utilisation)/increase of tax losses | <u>(88)</u> | <u>67</u> |
| Total current tax | <u>-</u> | <u>-</u> |

Factors affecting current and future tax charges

Tax losses will be carried forward and will be offset against the future profits of the Group

The Finance (No 2) Act 2010 reduced the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. On 23 March 2011, the Chancellor announced a further reduction of 1 per cent to 26 per cent in the rate of corporation tax from 1 April 2011 and legislation is included in the Finance Bill 2011 to reduce the main rate of corporation tax to 25 per cent from 1 April 2012. Further reductions in the rate by 1 per cent per annum to 23 per cent by 1 April 2014 have also been announced. Other than the reduction to 27 per cent, the changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

8. SHARE OPTIONS

The Group maintains an active EMI stock options scheme. These are options granted on various dates from 2003 to 2010. The exercise price for these options is 1 pence. These options have contractual life of 10 years and are normally exercisable on the first, second and third anniversary of the date the options are granted. The total expense recognised for the year arising from equity compensation plans was £11,000 (2009 £8,000).

At 31 December 2010, options to subscribe for Ordinary X shares of 1 pence each in the Company were outstanding as follows:

| Date of grant of option | Vesting date of option | Option Exercise Price (p) | Market Price (p) | 2010 Number of shares | 2009 Number of shares |
|-------------------------|------------------------|---------------------------|------------------|-----------------------|-----------------------|
| 2003 to 2006 | 2004 to 2009 | 1 | 1 | 19,576 | 19,576 |
| 2007 to 2008 | 2008 to 2011 | 1 | 375 | 15,627 | 21,355 |
| 2010 | 2011 to 2013 | 1 | 375 | 7,115 | - |
| | | | | 42,318 | 40,931 |

A summary of the status of the option plan as at 31 December 2010 and changes during the year is shown below:

| | 2010 Number of options | 2010 Weighted average exercise price (p) | 2009 Number of options | 2009 Weighted average exercise price (p) |
|--|------------------------------|--|------------------------------|--|
| Outstanding at the start of the period | 40,931 | 1 | 53,787 | 1 |
| Granted | 7,115 | 1 | - | 1 |
| Terminations | (4,616) | 1 | (1,355) | 1 |
| Exercised | (1,112) | 1 | (11,501) | 1 |
| Outstanding at the end of the period | 42,318 | 1 | 40,931 | 1 |
| Exercisable at the end of the period | 30,715 | 1 | 29,022 | 1 |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

8. SHARE OPTIONS (continued)

The weighted average fair value of share options, granted during the prior year was £3.74 per share. This was calculated by applying the Black Scholes Merton option pricing model. The model inputs were the share price at grant date, the appropriate exercise price, expected volatility of 100%, expected dividend yield of nil, contractual life of ten years and a risk-free interest rate of 0.5%. The volatility of 100% was estimated with reference to the average of the volatility of a range of listed companies which operate in the same or similar sector as this company.

9. TANGIBLE FIXED ASSETS

Group

| | Land & buildings (short leasehold) £000 | Network equipment £000 | Office fixtures & equipment £000 | Software licences £000 | Total £000 |
|------------------------------------|---|------------------------------|---|------------------------------|---------------|
| Cost | | | | | |
| At 1 January 2010 | 13,600 | 7,837 | 322 | 614 | 22,373 |
| Additions | - | 344 | 43 | 17 | 404 |
| At 31 December 2010 | 13,600 | 8,181 | 365 | 631 | 22,777 |
| Depreciation | | | | | |
| At 1 January 2010 | 1,700 | 6,250 | 263 | 603 | 8,816 |
| Charged during the year | 907 | 625 | 44 | 14 | 1,590 |
| At 31 December 2010 | 2,607 | 6,875 | 307 | 617 | 10,406 |
| Net book value at 31 December 2010 | 10,993 | 1,306 | 58 | 14 | 12,371 |
| Net book value at 31 December 2009 | 11,900 | 1,587 | 59 | 11 | 13,557 |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

9. TANGIBLE FIXED ASSETS (continued)

Company

| | Land & buildings (short leasehold) £000 | Network equipment £000 | Office fixtures & equipment £000 | Software licences £000 | Total £000 |
|---|---|------------------------------|---|------------------------------|---------------|
| Cost | | | | | |
| At 1 January 2010 | 13,600 | 6,891 | 322 | 614 | 21,427 |
| Additions | - | 337 | 43 | 17 | 397 |
| At 31 December 2010 | 13,600 | 7,228 | 365 | 631 | 21,824 |
| Depreciation | | | | | |
| At 1 January 2010 | 1,700 | 5,384 | 263 | 603 | 7,950 |
| Charged during the year | 907 | 594 | 44 | 14 | 1,559 |
| At 31 December 2010 | 2,607 | 5,978 | 307 | 617 | 9,509 |
| Net book value at 31 December 2010 | 10,993 | 1,250 | 58 | 14 | 12,315 |
| Net book value at 31 December 2009 | 11,900 | 1,507 | 59 | 11 | 13,477 |

Included in the amounts for network equipment above are the following amounts relating to assets held under finance leases for both the Group and the Company

| | <i>Group & Company 2010 £000</i> | <i>Group & Company 2009 £000</i> |
|----------------|--|--|
| Costs | 3,423 | 3,359 |
| Depreciation | (3,210) | (3,144) |
| Net book value | 213 | 215 |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

10. INTANGIBLE FIXED ASSETS *Group*

| | Purchased Goodwill £000 |
|---|-------------------------------|
| Cost | |
| At 1 January 2010 | 1,975 |
| At 31 December 2010 | <u>1,975</u> |
| Amortisation | |
| At 1 January 2010 | 288 |
| Charged during the year | 99 |
| At 31 December 2010 | <u>387</u> |
| Net book value at 31 December 2010 | 1,588 |
| Net book value at 31 December 2009 | <u>1,687</u> |

11. FIXED ASSETS INVESTMENTS Investment in subsidiary undertaking

| | <i>Company</i> 2009 & 2010 £000 |
|------------------------------|---------------------------------------|
| Cost | |
| At beginning and end of year | <u>1,402</u> |

The Company owns 100% of the ordinary share capital of Baltic Internet Services Limited and BIS Datacentres Limited, both companies are incorporated in England and Wales. The principal activity of BIS Datacentres Limited is the supply of telecommunications services.

Baltic Internet Services Limited is a dormant company. The investment in Baltic Internet Services Limited has been accounted for using merger relief. This means that the investment in Baltic Internet Services Limited has been included at the nominal value of shares issued by the Company.

The Company also subscribed to one share worth £1 of BIS Estates Limited, which was incorporated in England and Wales on 1 August 2007. The principal activity of BIS Estates Limited is an investment holding company. BIS Estates Limited owns 25% of the share capital of Mervy Bay Limited, which is incorporated in the British Virgin Islands. On 15 February 2008, Mervy Bay Limited purchased a data centre in south London and then leased it to BIS Limited. The Group does not exercise significant influence over the operations of Mervy Bay Limited. This is the reason why the results of Mervy Bay Limited are not recorded as an associate of the Company.

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

12. DEBTORS

Group

| | 2010 £000 | 2009 £000 |
|--------------------------------|--------------|--------------|
| Trade debtors | 1,649 | 1,643 |
| Other debtors | 1,252 | 1,558 |
| Deferred tax (see note 13) | 1,508 | 1,396 |
| Prepayments and accrued income | 1,024 | 1,119 |
| | <u>5,433</u> | <u>5,716</u> |

Company

| | 2010 £000 | 2009 £000 |
|-----------------------------------|--------------|--------------|
| Trade debtors | 1,485 | 1,488 |
| Other debtors | 297 | 412 |
| Amounts owed by Group undertaking | 1,244 | 1,698 |
| Deferred tax (see note 13) | 1,442 | 1,396 |
| Prepayments and accrued income | 719 | 825 |
| | <u>5,187</u> | <u>5,819</u> |

Amounts owed by group undertakings are unsecured, interest free and repayable on demand

13. DEFERRED TAX

Group

| | 2010 £000 |
|--|--------------|
| At beginning of year | 1,396 |
| Credit to the profit and loss for the year | 112 |
| At end of year | <u>1,508</u> |

The elements of deferred taxation are as follows

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 979 | 886 |
| Tax losses | 529 | 510 |
| | <u>1,508</u> | <u>1,396</u> |

A deferred tax asset is recognised because the directors believe that the future taxable profits are more likely than not to be in excess of those arising from the reversal of the deferred tax asset. A further deferred tax asset of £2 million (2009 £2.1 million) has not been recognised due to the uncertainty of its recovery.

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

13. DEFERRED TAX (continued)

Company

| | 2010 £000 |
|--|--------------|
| At beginning of year | 1,396 |
| Credit to the profit and loss for the year | 46 |
| At end of year | <u>1,442</u> |

The elements of deferred taxation are as follows

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 979 | 886 |
| Tax losses | 463 | 510 |
| | <u>1,442</u> | <u>1,396</u> |

A deferred tax asset is recognised in BIS Limited because the directors believe that the future taxable profits are more likely than not to be in excess of those arising from the reversal of the deferred tax asset

14. CREDITORS: amounts falling due within one year

Group

| | 2010 £000 | 2009 £000 |
|----------------------------------|--------------|--------------|
| Bank overdraft | 265 | 146 |
| Bank loan | - | 2 |
| Obligations under finance leases | 885 | 853 |
| Trade creditors | 2,021 | 2,391 |
| Taxation and social security | 570 | 271 |
| Other creditors | 47 | 96 |
| Accruals and deferred revenue | <u>3,577</u> | <u>3,374</u> |
| | <u>7,365</u> | <u>7,133</u> |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

14. CREDITORS: amounts falling due within one year (continued)

Company

| | 2010 £000 | 2009 £000 |
|----------------------------------|--------------|--------------|
| Bank loan | - | 2 |
| Obligations under finance leases | 885 | 853 |
| Trade creditors | 1,583 | 1,998 |
| Taxation and social security | 570 | 271 |
| Other creditors | 23 | 50 |
| Accruals and deferred revenue | 3,267 | 3,055 |
| | <u>6,328</u> | <u>6,229</u> |

BIS Limited assigned a fixed charge over all book debts and other debts and a floating charge over all other assets to Barclays Bank Plc on 6 June 2003. This was to secure the obligations of the Company under the terms of an overdraft agreement. The overdraft facility is scheduled for review by 10 August 2011. Interest on the overdraft facility is charged at 3% per annum above Barclays' base rate.

The Company had a loan from CIT Vender Finance (UK) Limited for a period of 3 years. Repayment of this amount includes interest at 8.7% p.a.

15. CREDITORS: amounts falling due after more than one year

Group

| | 2010 £000 | 2009 £000 |
|----------------------------------|---------------|---------------|
| Obligations under finance leases | 12,493 | 13,034 |
| Other creditors | 77 | 102 |
| | <u>12,570</u> | <u>13,136</u> |

Company

| | 2010 £000 | 2009 £000 |
|----------------------------------|---------------|---------------|
| Obligations under finance leases | 12,493 | 13,034 |
| | <u>12,493</u> | <u>13,034</u> |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

16. OBLIGATIONS UNDER FINANCE LEASE LIABILITIES

The maturity of obligations under finance lease contracts is as follows for both the group and the Company

| | 2010 £000 | 2009 £000 |
|------------------------------|--------------|--------------|
| Amounts payable | | |
| Within one year | 1,618 | 1,655 |
| In the second to fifth years | 5,557 | 5,565 |
| Later than five years | 10,848 | 12,113 |
| | 18,023 | 19,333 |
| Less future finance charges | (4,645) | (5,446) |
| | 13,378 | 13,887 |

17. SHARE CAPITAL

| | | |
|--|--------------|--------------|
| <i>Authorised</i> | 2010 £000 | 2009 £000 |
| 847,380 Ordinary A shares of £1 00 each | 847 | 847 |
| 3,000,000 Ordinary X shares of £0 01 each | 30 | 30 |
| | 877 | 877 |
| | | |
| <i>Allotted, called up and fully paid</i> | 2010 £000 | 2009 £000 |
| 408,727 (2009 408,727) Ordinary A shares of £1 00 each | 409 | 409 |
| 543,633 (2009 542,521) Ordinary X shares of £0 01 each | 5 | 5 |
| | 414 | 414 |

Both ordinary A and X shares rank equally and each ordinary share gives the holder one vote at a general meeting of the Company and the rights to participate in the profits of the Company by way of a dividend

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

18. RESERVES

Group

| | Share premium account £000 | Profit and loss account £000 |
|-------------------------|----------------------------------|---------------------------------------|
| At 1 January 2010 | 6,248 | (5,971) |
| FRS 20 reserve movement | - | 11 |
| Loss for the year | - | (311) |
| At 31 December 2010 | <u>6,248</u> | <u>(6,271)</u> |

Company

| | Share premium account £000 | Profit and loss account £000 |
|-------------------------|----------------------------------|---------------------------------------|
| At 1 January 2010 | 6,248 | (5,166) |
| FRS 20 reserve movement | - | 11 |
| Loss for the year | - | 490 |
| At 31 December 2010 | <u>6,248</u> | <u>(5,645)</u> |

19. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash flow from operating activities

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Operating profit | 278 | 49 |
| Share based payments | 11 | 8 |
| Depreciation | 1,590 | 1,695 |
| Amortisation of goodwill | 99 | 99 |
| Decrease/(increase) in debtors | 394 | (135) |
| Increase/(Decrease) in creditors/provisions | 120 | (1,059) |
| Net cash flow from operating activities | <u>2,492</u> | <u>657</u> |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

19. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(b) Analysis of net debt

| | At 1 January 2010 £000 | Net Cash flow £000 | Other non-cash movements £000 | At 31 December 2010 £000 |
|------------------------------------|------------------------------|-----------------------------|--|--------------------------------|
| Cash | - | 934 | - | 934 |
| Bank overdraft | (146) | (119) | - | (265) |
| | (146) | 815 | - | 669 |
| Bank loan | (2) | 2 | - | - |
| Finance leases within 1 year | (853) | 574 | (606) | (885) |
| Finance leases greater than 1 year | (13,034) | - | 541 | (12,493) |
| | (14,035) | 1,391 | (65) | (12,709) |

20. FINANCIAL COMMITMENTS

Neither the Group nor the Company had any capital commitments at the end of the financial year
At 31 December 2010 the Group and Company had annual commitments under non-cancellable operating leases as set out below

Group

| | Land and buildings | | Other | |
|-------------------------------|--------------------|--------------|--------------|--------------|
| | 2010 £000 | 2009 £000 | 2010 £000 | 2009 £000 |
| Operating leases which expire | | | | |
| Within one year | 21 | 255 | 3,486 | 2,686 |
| Between two and five years | - | - | 2,871 | 2,811 |
| Over five years | 972 | 935 | - | - |
| Total | 993 | 1,190 | 6,357 | 5,497 |

Company

| | Land and buildings | | Other | |
|-------------------------------|--------------------|--------------|--------------|--------------|
| | 2010 £000 | 2009 £000 | 2010 £000 | 2009 £000 |
| Operating leases which expire | | | | |
| Within one year | 21 | 33 | 3,486 | 2,686 |
| Between two and five years | - | - | 2,871 | 2,811 |
| Total | 21 | 33 | 6,357 | 5,497 |

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

21. RELATED PARTIES TRANSACTIONS

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into during the year, and trading balances outstanding at 31 December 2010, are as follows

| | Sales to related party £000 | Purchases from related party £000 | Amounts due from related party £000 | Amounts owed to related party £000 |
|--|-----------------------------------|--|--|--|
| <i>Grant Dawe LLP</i> | | | | |
| 31 December 2010 | 4 | 13 | - | - |
| 31 December 2009 | - | - | - | - |
| <i>Amphone Telecommunications Limited</i> | | | | |
| 31 December 2010 | - | 1 | - | - |
| 31 December 2009 | - | 1 | - | - |
| <i>Mervey Bay Limited</i> | | | | |
| 31 December 2010 | 15 | 1,446 | - | 410 |
| 31 December 2009 | - | 1,299 | - | 367 |
| <i>John Newbery Limited</i> | | | | |
| 31 December 2010 | - | - | - | 1 |
| 31 December 2009 | - | 1 | - | 1 |

D Pyemont, chairman of BIS Limited, owns 100% of the ordinary shares of Amphone Telecommunications Limited. Also he is the chairman and a shareholder of John Newbery Limited.

At 31 December 2010 Anthony Grant is a shareholder in BIS Limited and a partner of Grant Dawe LLP.

The Company has taken advantage of the exemption granted by FRS8 "Related Party Transactions" not to disclose details of transactions with other Group companies as the Company's financial statements are presented together with the consolidated financial statements.

BIS Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

21. RELATED PARTIES TRANSACTIONS (continued)

No amounts due or from related parties were written off in the year. BIS Limited provides managed services solutions to both Grant Dawe LLP and Amphone Telecommunications Limited. Grant Dawe LLP performed legal services during the year and in the prior year. Amphone Telecommunications Limited received commission on business they refer to BIS Limited.

BIS Limited has a lease with Mervy Bay Limited for the data centre in Greenwich. BIS Estates Limited holds 25% of the equity in Mervy Bay Limited. John Newbery Limited supplied cricket equipment for a BIS Limited sponsored event.

22. ULTIMATE CONTROLLING PARTY

David Pyemont owns 73% of the total issued share capital of the Company. He is the ultimate controlling party of BIS Limited.