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2e2 Group Limited

Report and Financial Statements

31 December 2009

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T Burt
M McVeigh
N Grossman
S Burt

Secretary
S Burt

Auditors
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Chairman's Statement

I am delighted to present our Annual Report and Accounts for 2009 In what can only be described as exceptionally challenging and demanding economic times, our business made significant progress, producing a strong set of results

Once again, we have secured many major new projects with both our existing and new highly-valued customers Despite the market landscape proving to be competitive, we have continued to successfully differentiate 2e2 with our approach to providing solutions that deliver clear, measurable value whilst transforming our customers' business

As ever, we have enjoyed strong support from our industry partners, which is greatly appreciated

Looking back to the start of the year, we undertook a number of measures to help protect the business from the worst effects of the difficult economy in which we found ourselves Tight cost controls and prudent management allowed us to retain and grow our market position By remaining focused and maintaining the high levels of service, in which we take pride, our revenues for the year reached £200m producing an EBITDA result of £30m

Let me take this timely opportunity to thank our many customers for their ongoing support and, in particular, to recognise my fellow employees for all their hard work and many contributions to our success during 2009 Thank you

Now looking forward, we have just completed our acquisition of Morse plc We see the combination of 2e2 and Morse as the perfect next step in our strategy to create a larger and broader IT Services business in the UK and with strong presence in selected European territories The combined business will be heavily focused on key market sectors with some 64% of revenues coming from Financial Services, TMT and Public Sector The enlarged business will derive 58% of revenues from Managed Services and Professional Services This supports our strategy to build a compelling and respected IT services organisation with revenues of £500m and a clear value-enhancing proposition and track record in our chosen market sectors Working closely with the boards of our customers, we will continue to become more involved in introducing innovation and new ways of working that will help turn business strategy into competitive and commercial advantage for our clients

Finally I would like to welcome Hutton Collins, our recent equity investor, who provided the funding for the Morse transaction

In summary, the future for 2e2 is exciting and full of opportunity We are in an exceptionally strong position to drive the business forward, thereby increasing the importance and significance of 2e2 to our Customers in our chosen markets

Eric Priestley
Chairman
2e2 Holdings Limited

Chief Executive's Review

I am delighted to present our results for the year ended 31 December 2009 In what was an exceptionally difficult economic environment we have once again produced strong results and improved our margins

During the early part of the year we completed our integration of the UK business into a unified organisation With central shared services, sales and account management organisations, we are now able to scale easily to address the demands of our customers' most strategic programmes, underpinning our future growth potential Our broader portfolio has enabled us to engage in increasingly complex assignments spanning business process optimisation and workflow through to joined-up analytics and scaleable infrastructure I am particularly pleased with the role that our cloud-based services have played, we have a ten-year pedigree of providing Cloud and XaaS services and this is enabling us to win the confidence of a growing number of clients

As ever we've enjoyed strong support from our industry partners and exceptional commitment and dedication from our workforce I'd like to thank all of our employees for their hard work and for their contribution during 2009

The recent completion of our acquisition of Morse plc plays a key role in our strategic vision of becoming a £500m services and solutions organisation The acquisition will bring us valuable professional services skills, the ability to offer SAP-orientated solutions and services, and increased scale and capabilities around storage and security solutions Morse also brings a wealth of both high-end customer relationships and staff skills and we are focused on retaining and expanding these in the coming months The acquisition of Morse will also assist with the introduction of our Architectures and our ongoing alignment against industry sectors Our Architectures provide customers with a clear means of applying IT solutions to address business issues

Results

Group turnover from continuing activities for the year was £201m (2008 £194m) At the beginning of 2009, against a backdrop of economic decline, we implemented a number of cost controls and spending constraints and many of these remained in place throughout the year I am pleased to say that these measures not only helped us to remain in good health but also enabled us to emerge with improved margins EBITDA from continuing operations and before exceptional items increased to £30 9m (2008 £24 6m)

It was very pleasing to see our UK integration project reach fruition This has produced a substantially more robust and capable organisation whilst retaining the agility for which we are known Functioning under a unified management structure, we now operate a companywide ERP and CRM platform that allows us to gain improved insight into all aspects of the business and make early and informed decisions that underpin our continued success

We enjoyed strong growth in many segments of our business during the year and were particularly encouraged by the number of significant project wins from both new and existing customers London Borough of Brent, Connaught, Talk Talk, Camden and Islington Primary Care Trusts and Islington Foundation Trust and Remploy were amongst these The London Borough of Brent win was particularly notable as we are now providing services to 24 of the 33 London Boroughs as our public-sector practice continues to experience strong demand

Chief Executive's Review

Our Microsoft consulting business enjoyed a particularly strong year with several new projects embarked upon and a placing by Microsoft as a finalist in their New Dynamics Partner of the Year As a result of this progression, we now operate the second largest Microsoft Dynamics practice in the UK

Our well-established Cloud Computing platform once again underpinned many of our wins 2e2 now offers on-demand data warehousing, data-as-a-service and specialist cloud-based solutions for the legal and professional services industries For over ten years we have been delivering Cloud services and with the greater drive for efficiency savings in both public and private sector organisations, we are seeing a steadily increasing demand for our proven capabilities in this area

Industry recognition of 2e2's achievements continued We were awarded Integrator of the Year 2009 in the prestigious Channel Awards, and were the second fastest growing IT services organisation in the Sunday Times and Deloitte Buyout Track 100 Our move to a centralised sales model drove us to make our extensive portfolio more accessible to existing and potential customers, our partners and of course our own sales teams Following extensive market research and listening to customer feedback, we created four business architectures focused on the key needs of organisations today These business architectures focus on

- updating and rationalising information and communication infrastructure to increase availability and reduce management cost,
- supporting new ways of working as employees become increasingly mobile and use ever more applications and devices,
- centralising information and reducing duplications, thereby providing a single and consistent means of managing customer and stakeholder contacts, and
- ensuring information is secure, compliant and can be disseminated readily, in the right format and to the appropriate people

Operating cash flow performance was affected by the difficult economic conditions During the year we were able to improve the management of our receivables, but found it more difficult to continue to achieve our historic credit terms from our suppliers Many of our suppliers were unable to maintain trade credit insurance and this had a negative impact on our facilities Most of the impact of this was felt during the first half of the year, and we have seen more stable facilities since then We are grateful to our supply chain partners for their continued support through this period

Since the close of the year, we have completed our acquisition of Morse plc This forms a key step in the onward progression of 2e2, creating an excellent opportunity to expand our client base and access valuable skills and capabilities The combined group will create a significant UK IT services provider with strong representation in selected European territories It will create a significant critical mass in the finance and banking sector and will enable us to deliver complex professional services projects more readily

Summary

2009 was a successful year for the group, particularly given the macro-economic climate that existed Now, almost a year after we completed the integration of our UK business, we have a stronger and more adaptable business, and this is helping us to serve our customers more effectively Our customers tell us that they continue to work with 2e2 because we are agile, accountable by demonstrating return on investment, have a strong track record of delivery and due to our depth of technical expertise We have

Chief Executive's Review

maintained and invested in these core tenets during 2009 whilst ensuring that we have the robust and durable underlying processes to ensure control and quality

Terry Burt
Chief Executive Officer

Directors' report

The dırectors' present theır report and financıal statements for the year ended 31 December 2009

Results and dividends

There was a group operatıng profit for the year of £11 2m (2008 – profit of £10 1m)

The dırectors are satısfied wıth the performance of the group durıng the year They do not recommend the payment of a dıvıdend (2008 – £nıl)

Principal activity and review of the business

The prıncıpal actıvıty of the group ıs the delıvery of outsourced computer servıces, focusıng on the Unıfied Communıcatıons, Technology Solutıons, Managed Servıces and Busıness Applıcatıons Solutıons These servıces are delıvered to customers ın the UK, Channel Islands, Isle of Man and The Netherlands The group contınues to expand ıts actıvıtıes through a combınatıon of organıc growth and acquısıtıons

The retaıned profit for the year after taxatıon amounted to £2 5m (2008 – profit of £2 4m) Included wıthın operatıng profit, certaın exceptıonal one-off costs have been hıghlıghted on the face of the profit and loss account to gıve a better understandıng of the underlyıng performance of the group These costs amount to £4 5m (2008 – £5 6m) and relate to the ıntegratıon and restructurıng of the UK companıes

Sınce the end of the year, the Group has acquıred the entıre share capıtal of Morse plc for £69 6m plus assocıated costs Morse provıdes IT Servıces and Technology to large customers, prıncıpally ın the UK, Spaın and Ireland The acquısıtıon gıves 2e2 sıgnıficant addıtıonal scale and servıce capabılıty

The acquısıtıon was funded by the ıssue of £85 0m of new preferred ordınary equıty ın 2e2 Holdıngs Lımıted, the Group's ultımate holdıng company, to Hutton Collıns Capıtal Partners Lımıted The excess fundıng ıs to be used to provıde addıtıonal workıng capıtal to the Group

The Dırectors are grateful for the support of Group's funders, and ın partıcular for the support of our new ınvestors, Hutton Collıns Capıtal Partners, ın facılıtatıng the acquısıtıon of Morse

Future developments

In the future the group wıll contınue to ınvestıgate suıtable acquısıtıon opportunıtıes where ıt feels these wıll strengthen ıts offerıngs to customers The group ıs also plannıng to contınue the ıntegratıon actıvıtıes ın order to maxımıse the benefits of the ıncreasıng scale of the group

Directors

The dırectors who served durıng the year and those appoınted subsequently were as follows

T Burt
M McVeıgh
N Grossman
S Burt

Directors' report

Principal risks 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

Interest rates

The relates to the risk of fluctuations in LIBOR, on which the interest charges for the group's bank facilities are based The group manages interest rate risk by entering into interest rate hedging agreements in relation to the majority of its bank borrowings

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 group 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

Employee involvement

The group 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

Disabled employees

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 group may continue

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

Directors' report

Supplier payment policy

It is the policy of the group to pay all amounts due to suppliers as they fall due As at 31 December 2009, trade creditors of the group were equivalent to 50 days purchases (2008 – 49 days)

Share-based payments

All employee share option plan

Employees may be awarded share options as a reward for past performance or to incentivise future performance The options will vest if the employee remains in service for a period of four years from the date of grant The contractual life of the options is ten years and there are no cash settlement alternatives No options were issued during the year

Corporate governance

The directors recognise the importance of adopting good corporate governance practices in the best interests of shareholders as a whole

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' 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 Section 234 of 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 group'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

Auditors

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

On behalf of the Board

Simon Burt
Director

30 July 2010

Statement of directors' responsibilities

The dırectors are responsıble for preparıng the annual 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 group and the company and of the profit or loss of the group for that perıod In preparıng these financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make judgments and estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subject 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 proper accountıng records that are sufficıent to show and explaın the group's and the company's transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the group and 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 group and company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

The dırectors are responsıble for the maıntenance and ıntegrıty of the corporate and financıal ınformatıon ıncluded on the company's websıte Legıslatıon ın the Unıted Kıngdom governıng the preparatıon and dıssemınatıon of financıal statements may dıffer from legıslatıon ın other jurısdıctıons

Independent auditors' report

to the members of 2e2 Group Limited

We have audited the group and parent company financial statements of 2e2 Group Limited for the year ended 31 December 2009 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 27 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 auditors' 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 Statement of Directors' Responsibilities set out on page 9, 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) These standards require us to comply with the Auditing Practice's 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 as assessment of whether the accounting policies are appropriate to the company'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 the 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 2009 and of the company's 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 by 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 Group Limited (continued)

Matter on which we are required to report by exception

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

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- The parent company financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

Ernst + Young LLP

Kevin Harkin (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

30 July 2010

Group profit and loss account

for the year ended 31 December 2009

	Notes	Continuing operations £000	Discontinued operations £000	Total 2009 £000	2008 £000
Turnover					
Continuing operations		200,075	-	200,075	183,096
Acquisitions		-	-	-	10 560
		200,075	-	200,075	193,656
Discontinued operations		-	731	731	11,292
Group turnover	2	200,075	731	200,806	204,948
Cost of sales		(127,249)	(178)	(127,427)	(132,300)
Gross profit		72,826	553	73,379	72,648
Administration expenses		(41,892)	(1,504)	(43,396)	(49,187)
Operating profit before depreciation, amortisation of goodwill and exceptional items*		30 934	(951)	29,983	23,461
Depreciation (non-rental assets)		(5,661)	-	(5,661)	(2,053)
Amortisation of goodwill	3	(8,577)	-	(8,577)	(5,737)
Exceptional administration expenses	3	(4,493)	(29)	(4 522)	(5,603)
Operating profit					
Continuing operations		12,203	-	12,203	12 884
Acquisitions		-	-	-	(1,436)
		12,203	-	12,203	11,448
Discontinued operations		-	(980)	(980)	(1 379)
Group operating profit	3	12,203	(980)	11,223	10 069
Cost of fundamental restructuring		-	-	-	(3 395)
Net interest and other similar charges	6	(11 466)	-	(11,466)	(3,546)
Profit on ordinary activities before taxation		737	(980)	(243)	3,128
Tax on profit on ordinary activities	7	2,772	-	2,772	(713)
Profit for the year attributable to members of the parent undertaking	21	3 509	(980)	2,529	2,415

* Non-statutory disclosure, presented for supplementary understanding of the financial statements

Group statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £000	2008 £000
Profit for the year	2,529	2,415
Currency translation differences on foreign currency net investments	1,313	(4,290)
Total recognised gains and losses related to the year	3,842	(1,875)

Group balance sheet

at 31 December 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Intangible assets – goodwill	10	138,290	146,871
Tangible assets	11	17,236	17,375
		155,526	164,246
Current assets			
Stocks	13	3,025	5,372
Debtors amounts due within one year	14	73,554	58,450
Debtors amounts due after more than one year	14	6,328	3,644
Cash		540	3,718
		85,447	71,184
Creditors: amounts falling due within one year	15	(48,975)	(50,815)
Net current assets		34,472	20,369
Total assets less current liabilities		189,998	184,615
Financed by			
Creditors amounts falling due after more than one year	16	159,188	163,407
Deferred income	17	25,583	19,831
Capital and reserves			
Called up share capital	20	105	105
Share premium account	21	265	265
Other reserves	21	466	458
Profit and loss account	21	4,391	549
Shareholders' funds and net assets		5,227	1,377
		189,998	184,615

Simon Burt

Director

30 July 2010

Company balance sheet

at 31 December 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Tangible assets	11	1	1
Investments	12	222	222
		223	223
Current assets			
Debtors	14	15,732	14,216
		15,732	14,216
Creditors: amounts falling due within one year	15	(46)	(67)
Net current assets		15,686	14,149
Total assets less current assets		15,909	14,372
Financed by			
Creditors: amounts falling due after more than one year	16	9,957	8,240
Capital and reserves			
Called up share capital	20	105	105
Share premium account	21	265	265
Other reserves	21	51	51
Profit and loss account	21	5,531	5,711
Shareholders' funds and net assets		5,952	6,132
		15,909	14,372

Simon Burt

Director

30 July 2010

Group statement of cash flows

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Net cash inflow from operating activities	22(a)	14,366	21,224
Returns on investments and servicing of finance			
Interest received		28	84
Interest paid		(8,168)	(3,243)
Finance lease interest paid		(97)	(16)
Net cash outflow from returns on investments and servicing of finance		(8,237)	(3,175)
Taxation		230	(203)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,805)	(9,086)
Net cash outflow from capital expenditure and financial investment		(5,805)	(9,086)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(63,054)
Net (debt)/cash from purchase of subsidiary undertakings		-	(385)
Sale of subsidiary undertaking		-	8,400
Net cash transferred with subsidiary undertaking		-	(1,303)
Payments in respect of prior year acquisitions		(2,494)	–
Net cash outflow from acquisitions and disposals		(2,494)	(56,342)
Net cash inflow/(outflow) before financing		(1,940)	(47,582)
Financing			
Receipt of borrowings		2,250	154,221
Repayment of loans from parent company		(3,251)	(115,374)
Finance leases		(237)	650
Net cash (outflow)/inflow from financing		(1,238)	39,497
Decrease in cash	22(b)	(3,178)	(8,085)

Notes to the financial statements

at 31 December 2009

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings (see note 12), drawn up to 31 December 2009

Subsidiary undertakings

The acquisition method of accounting has been adopted for acquisitions Under this method the results of the subsidiary undertakings acquired or disposed of in the year are included in the profit and loss account from the date of acquisition or up to the date of disposal

In the company's financial statements, investments in subsidiary undertakings are stated at cost less any provisions for diminution in value

In accordance with section 408 of the Companies Act 2006, 2e2 Group Limited is exempt from the requirement to present its own profit and loss account

Goodwill

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life, generally 20 years

Negative goodwill is written back to the profit and loss account to match the recovery of the non-monetary assets acquired

Turnover

Turnover is the total amount receivable by the group for goods supplied and services provided, excluding VAT and trade discounts Service revenues invoiced in advance are taken to income evenly over the period of delivery of the service

In the case of long-term contracts, turnover reflects the contract activity during the year and represents the proportion of total contract value which costs incurred to date bear to total expected contract costs

Revenue from equipment rentals is recognised over the term of the agreement on a straight line basis Any unrecognised revenue element is shown separately in the balance sheet as deferred income For certain rental equipment arrangements, the company receives a discount against the purchase of products from the suppliers of this rental equipment For these arrangements, revenue is equal to the discount received by the company which is recognised over the term of the rental agreement

Long-term contracts

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty The profit recognised reflects the proportion of work completed to date on the project

Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover Long-term contract balances included in stocks are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account

Full provision is made for losses on all contracts in the year in which the loss is first foreseen

Notes to the financial statements
at 31 December 2009

1. Accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment

Depreciation is calculated to write down the cost of all tangible fixed assets by equal annual instalments over their estimated useful economic lives or lease term if shorter The rates generally applicable are

Leasehold improvements	–	Term of the lease
Computer equipment	–	3–4 years
Fixtures and fittings	–	4 years
Motor vehicles	–	4 years
Rental assets	–	2 – 3 years

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term

Investments

Investments are included at cost less amounts written off

Stocks

Stocks are stated at the lower of cost and net realisable value

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 the following exceptions

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- 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

Notes to the financial statements

at 31 December 2009

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are translated 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 The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets All other exchange differences are dealt with through the profit and loss account

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred

Pensions

The group operates a number of defined contribution pension schemes Contributions are charged in the profit and loss account as they become payable

Share options

The group issues equity-settled share-based payments to certain employees and advisers Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions at the date of grant) The fair value so determined has been expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest, and adjusted for the effect of non-market vesting conditions

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement

Fair value is measured using a Black-Scholes-Merton option pricing model The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

2. Turnover

Turnover is wholly attributable to the provision of Information Technology Solutions An analysis of turnover by geographical market is given below

	2009	*2008*
	£000	*£000*
United Kingdom (including the Channel Islands and the Isle of Man)	168,985	180,742
Europe	31,821	24,206
Rest of world	-	–
	200,806	204,948

No turnover relates to barter transactions (2008 £1 1m)

Notes to the financial statements

at 31 December 2009

3. Operating profit

This is stated after charging

		2009	2008
		£000	£000
Auditors' remuneration – audit services	– UK	302	319
	– Overseas	85	77
	– non-audit services	79	412
Depreciation and amortisation	– goodwill (see note 10)	8,577	5,737
	– tangible fixed assets – owned	5,328	6,466
	– held under finance leases and hire purchase contracts	333	231
FRS 20 share option charges		4	4
Other operating lease rentals		7,830	6,208
Exceptional restructuring and integration costs		4,522	5,429

Exceptional restructuring costs

The restructuring costs relate to the following activities

	2009	2008
	£000	£000
Restructuring costs and redundancy costs in the UK group	3,358	3,918
Restructuring costs and redundancy costs in the Netherlands group	1,164	1,511
	4,522	5,429

There were no acquisitions during the year

4. Directors' emoluments

For the current year directors' emoluments have been borne by fellow group company 2e2 Holdings Limited Further details of the director emoluments are disclosed in the accounts of 2e2 Holdings Limited Remuneration in respect of directors during the previous year was as follows

During the year three directors participated in money purchase pension schemes, further details are disclosed in 2e2 Holdings Limited financial statements (2008 – four)

Notes to the financial statements

at 31 December 2009

5. Staff costs

Staff costs during the year were as follows

	2009	*2008*
	£000	*£000*
Wages and salaries	48,429	53,173
Social security costs	5,705	6,275
Other pension costs	1,340	1,280
	55,474	60,728

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

	2009	*2008*
	No	*No*
Management and administration	185	169
Sales and marketing	158	255
Operations	862	899
	1,205	1,323

6. Net interest and other similar charges

	2009	*2008*
	£000	*£000*
Interest payable on bank loans	11,400	3,614
Finance charges in respect of finance leases	94	16
	11,494	3,630
Other interest receivable and similar income	(28)	(84)
	11,466	3,546

Notes to the financial statements
at 31 December 2009

7. Tax

(a) Tax on profit on ordinary activities

	2009	*2008*
	£000	*£000*
Current tax		
UK corporation tax	-	682
Overseas taxation	(178)	(530)
Adjustments in respect of prior years	91	561
Total current tax (note 7(b))	(87)	713
Origination and reversal of timing differences	(2,685)	78
Effect of changes in tax rates on liability	-	(78)
Total deferred tax	(2,685)	–
Tax on profit on ordinary activities	(2,772)	713

(b) Factors affecting tax (credit) / charge for the year

The tax assessed for the year is different than the standard rate of corporation tax in the UK of 28% (2008 28 5%) The differences are explained as follows

	2009	*2008*
	£000	*£000*
(Loss) / profit on ordinary activities before tax	(243)	3,128
(Loss) / profit before tax on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 28 5%)	(68)	891
Effects of		
Expenses not deductible for tax purposes	2,521	312
Capital allowances in excess of depreciation	1,177	(1,091)
Increase/utilisation of tax losses	(2,342)	1,474
Differences in tax rates	-	(530)
Adjustments to tax charge in respect of previous years	91	561
Group relief received	(1,374)	(808)
Other short-term timing differences	(92)	(96)
Current (credit) / tax charge for the year (note 7(a))	(87)	713

Notes to the financial statements

at 31 December 2009

8. Profit for the financial year

The parent undertaking's loss for the year ended 31 December 2009 was £0 2m (2008 – loss of £1 9m)

9. Dividends

No dividends were paid or declared during the year (2008 – £nil)

10. Intangible fixed assets

		Group
	2009	*2008*
	£000	*£000*
Goodwill	138,290	146,871

Group

	Purchased goodwill £000	*Goodwill £000*	*Negative goodwill £000*	*Total £000*
Cost				
At 1 January 2009	868	163,278	(2,772)	161,374
Additions (note 23)	-	-	-	-
Adjustments in respect of prior year acquisitions	(4)	-	-	(4)
Disposals (note 24)	-	-	-	-
At 31 December 2009	864	163,278	(2,772)	161,370
Amortisation				
At 1 January 2009	(656)	(16,619)	2,772	(14,503)
Provided in the year	(160)	(8,417)	-	(8,577)
Disposals	-	-	-	-
At 31 December 2009	(816)	(25,036)	2,772	(23,080)
Net book value				
At 31 December 2009	48	138,242	-	138,290
At 1 January 2009	212	146,659	–	146,871

The goodwill that has arisen on all acquisitions is being amortised evenly over the estimate of the useful economic life of 20 years.

Notes to the financial statements

at 31 December 2009

11. Tangible fixed assets

Group

	Freehold property *£000*	*Leasehold improvements* *£000*	*Motor vehicles* *£000*	*Computer equipment* *£000*	*Total* *£000*
Cost					
At 1 January 2009	1,454	1,786	222	19,033	22,495
Additions	4	521	13	4,989	5,527
Foreign exchange	–	(48)	–	(115)	(163)
Disposals	–	(266)	(13)	(540)	(819)
At 31 December 2009	1,458	1,993	222	23,367	27,040
Depreciation					
At 1 January 2009	15	735	96	4,274	5,120
Provided in the year	193	1,072	61	4,335	5,661
Foreign exchange	–	(36)	–	(74)	(110)
Disposals	–	(315)	(12)	(540)	(867)
At 31 December 2009	208	1,456	145	7,995	9,805
Net book value					
At 31 December 2009	1,250	537	77	15,372	17,236
At 1 January 2009	1,439	1,050	126	14,759	17,375

The net book value of fixed assets includes £1 2m (2008 £1 4m) for computer and other equipment in respect of assets held under finance leases and hire purchase contracts

Company

	Computer equipment *£000*
Cost	
At 1 January 2009	8
Additions	–
At 31 December 2009	8
Depreciation	
At 1 January 2009	7
Provided in the year	–
At 31 December 2009	7
Net book value	
At 31 December 2009	1
At 1 January 2009	1

Notes to the financial statements

at 31 December 2009

12. Fixed asset investments

Company	*Investment in subsidiary undertakings*
	£000
At beginning and end of year	222

The company owns either directly or indirectly 100% of the ordinary share capital of the following principal subsidiary companies, the principal activities of which are the provision of computer services

Incorporated in the United Kingdom (including the Channel Islands and the Isle of Man) and trading

2e2 Limited
2e2 Services Limited
2e2 Solutions Limited
2e2 Offshore Limited
Netstore Limited
2e2 UK Limited
Compelsolve Limited
2e2 Data Management Limited
Compel Group Limited
2e2 Storage Limited

Incorporated in the Netherlands and trading

2e2 Tradecom International B V
2e2 Group B V
2e2 Yul Data Security B V
2e2 Dynomic B V
2e2 Motifact Group B V

Incorporated in Belgium and trading

2e2 Motifact Service Management Belgie N V

All subsidiaries are held indirectly with the exception of 2e2 Limited which is held directly

13. Stocks

	Group 2009	*Company 2009*	*Group 2008*	*Company 2008*
	£000	*£000*	*£000*	*£000*
Spare parts	1,928	–	3,194	–
Goods for resale	1,028	–	597	–
Short–term work in progress	69	–	1,581	–
	3,025	–	5,372	–

Notes to the financial statements

at 31 December 2009

14. Debtors

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Trade debtors	35,685	–	40,577	–
Amounts owed by group undertakings	2,825	15,732	–	14,120
Prepayments and accrued income	35,044	–	17,873	96
Deferred tax asset (see note 19)	6,328	–	3,644	–
	79,882	15,732	62,094	14,216

Included in the above are the following amounts that are due after more than one year

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Deferred tax asset	6,328	–	3,644	–

15. Creditors: amounts falling due within one year

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Bank loans	4,000	–	4,000	–
Trade creditors	21,475	46	25,194	67
Tax and social security	5,263	–	6,862	–
Accruals	17,474	–	13,974	–
Amounts due under finance leases	763	–	785	–
	48,975	46	50,815	67

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

	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Bank loans	154,188	9,957	149,941	8,240
Amounts owed to group undertakings	4,426	–	12,677	–
Amounts due under finance leases	574	–	789	–
	159,188	9,957	163,407	8,240

The bank loans are secured by a fixed and floating charge over all the assets of the Group The bank loans consist of the following facilities

Notes to the financial statements

at 31 December 2009

16. Creditors: amounts falling due after more than one year (contınued)

- Term Loan A – ın the amount of £31 7 mıllıon ıs repayable ın ınstalments A total of £4 mıllıon ıs repayable wıthın one year wıth the balance payable ın ınstalments fınıshıng on 30 June 2015 Interest ıs charged at the rate of LIBOR plus 2 25% to 4 50%
- Term Loan B – ın the amount of £37 5 mıllıon ıs repayable ın a sıngle ınstalment on 10 October 2016 Interest ıs charged at the rate of LIBOR plus 3 00% to 5 00%
- Term Loan C – ın the amount of £37 5 mıllıon ıs repayable ın a sıngle ınstalment on 10 October 2017 Interest ıs charged at the rate of LIBOR plus 5 50%
- Revolvıng Facılıty – ın the amount of £15 mıllıon ıs repayable ın a sıngle ınstalment on 30 September 2013 Interest ıs charged at the rate of LIBOR plus 2 25% to 4 50%
- Mezzanıne Facılıty – ın the amount of £35 0 mıllıon ıs repayable ın a sıngle ınstalment on 10 October 2018 Interest ıs payable at the rate of LIBOR plus 16 00% 11 00% of the ınterest ıs not due for payment and rolls up untıl 10 October 2018

Amounts due under finance leases are secured on the assets to whıch they relate

17. Deferred income

	Group 2009 £000	*Company 2009 £000*	*Group 2008 £000*	*Company 2008 £000*
Deferred ıncome – wıthın one year	25,583	–	19,831	–

18. Borrowings

Borrowıngs are repayable as follows

	Group 2009 £000	*Company 2009 £000*	*Group 2008 £000*	*Company 2008 £000*
Wıthın one year				
Bank and other borrowıngs	4,000	–	4,000	–
Fınance leases	763	–	785	–
After one and wıthın two years				
Bank and other borrowıngs	6,400	–	4,000	–
Fınance leases	573	–	416	–
After two years and wıthın five years				
Bank and other borrowıngs	22,400	–	20,800	–
Fınance leases	–	–	374	–
After five years				
Bank and other borrowıngs	133,847	9,957	141,635	8,240
Less ıssue costs	(4,032)	–	(4,603)	–
	163,951	9,957	167,407	8,240

Notes to the financial statements

at 31 December 2009

18. Borrowings (continued)

Bank and other borrowings repayable after five years comprise

	Group 2009 £000	*Company 2009 £000*	*Group 2008 £000*	*Company 2008 £000*
Bank borrowings	127,427	9,957	131,587	8,240
Accrued interest	1,994	–	371	–
Amounts owed to group undertakings	4,426	–	12,677	–
	133,847	9,957	144,635	8,240

On 10 October 2008, the Company entered into a cross guarantee in the amount of £165,000,000, in favour of its bankers in respect of the borrowings of the group

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

19. Deferred taxation

Deferred taxation recognised in the financial statements is set out below (see note 14)

	Group 2009 £000	*Company 2009 £000*	*Group 2008 £000*	*Company 2008 £000*
Assets				
Tax losses carried forward	6,328	-	3,644	–

The movement in deferred tax is as follows

	Group and company £000
As at 1 January 2009	3,644
Provided during the year	2,684
As at 31 December 2009	6,328

Based on current contracted revenues and consequent visibility of profits at 2e2 UK Limited, a deferred tax asset has been recognised to reflect the recoverability of historic trading losses in this entity

Notes to the financial statements

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19. Deferred taxation (continued)

Unrecognised deferred tax

Unrecognised deferred taxation is set out below

	Group 2009 £000	*Company 2009 £000*	*Group 2008 £000*	*Company 2008 £000*
Assets				
Depreciation in excess of capital allowances	3,770	13	797	12
Other short-term timing differences	961	-	849	–
Tax losses carried forward	14,040	36	21,785	285
Total tax losses carried forward	18,771	49	23,431	297

In his budget of 22 June 2010, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have a significant effect on the Company's future tax position As at 31 December 2010, the tax changes announced in the Budget are not yet regarded as 'substantively enacted' and as such, in accordance with accounting standards, the changes have not been reflected in the Company's financial statements as at 31 December 2009

The budget proposed a decrease in the rate of UK corporation tax from 28% to 24% by 1% each year, from April 2011, which will be enacted annually The effect of the reduction in the tax rate to 24% on the Company's deferred tax asset would be to reduce the deferred tax asset by a maximum of £904,000 The rate change will also impact the amount of the future cash tax payment to be made by the Company

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantively enacted

Further from 1 April 2012, there will be a 2% reduction in the rates of capital allowances, the main rate pool going down from 20% to 18% and the special rate pool from 10% to 8%

20. Issued share capital

Group and Company

Allotted, called up and fully paid	*2009 £000*	*2008 £000*
1,275,000 A ordinary shares of £0 04 each	51	51
1,362,250 B ordinary shares of £0 04 each	54	54
	105	105

Share option reserve

The group's parent undertaking, 2e2 Holdings Limited operates a share option scheme which is open to all employees of the group at the discretion of the board of 2e2 Holdings Limited The group records a charge in accordance with FRS 20 for options to acquire shares of 2e2 Holdings Limited that are granted to employees of the group In the scheme the options typically vest based on the following pattern, 50% on the second anniversary of the date of grant and a further 25% on the third and fourth anniversary, the options also vest on the listing on a public market or the sale of 2e2 Holdings Limited The options lapse

Notes to the financial statements

at 31 December 2009

ıf they remaın unexercısed after 10 years from the date of grant The optıons also lapse followıng the employee leavıng the group There were 44,250 share optıons outstandıng at the year end (2008 – 44,250) The weıghted average share prıce at the date of exercıse for share optıons ıssued durıng the year was 100p

The faır values were calculated usıng a Black-Scholes-Merton model The ınputs ınto the model were as follows

	2009	*2008*
Weıghted average share prıce	£1 00	£1 00
Weıghted average exercıse prıce	£1 00	£1 00
Expected volatılıty	35 53%	35 53%
Rısk-free rate	4 25%	4 25%
Expected dıvıdend yıeld	nıl	nıl

Expected volatılıty was determıned usıng as a base the share prıce movements recorded over the same perıod as the vestıng perıod (from grant date to vestıng date) and takıng ınto account any specıfic factors ımpactıng durıng the perıod The expected lıfe used ın the model has been adjusted, based on management's best estımate for the effects of non-transferabılıty, exercıse restrıctıons and behavıoural consıderatıons

20. Issued share capital (contınued)

Share option reserve (contınued)

There were 44,250 outstandıng at the year end No optıons were ıssued durıng the year Durıng the year no optıons were exercısed, cancelled or lapsed For the share optıons outstandıng as at 31 December 2009, the weıghted average remaınıng contractual lıfe ıs 7 years (2008 – eıght)

The group recognısed total charges of £3,837 related to equıty-settled share-based payment transactıons durıng the year (2008 – £3,310)

21. Share premium account and reserves

Group	*Share premıum account £000*	*Other reserves £000*	*Profit and loss account £000*
At 1 January 2009	265	458	549
Retaıned profit for the year	–	–	2,533
FRS 20 share optıon charges	–	–	(4)
Currency translatıon dıfferences on foreıgn currency net ınvestments	–	8	1,313
At 31 December 2009	265	466	4,391

Company			
At 1 January 2009	265	51	5,711
Retaıned loss for the year	–	–	(176)
FRS 20 share optıon charges	–	–	(4)
At 31 December 2009	265	51	5,531

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at 31 December 2009

Notes to the financial statements

at 31 December 2009

22. Notes to the statement of cash flows

(a) Net cash inflow from operating activities

	2009	*2008*
	£000	*£000*
Operating profit	11,223	10,069
Cash impact of fundamental restructuring	-	(3,395)
Amortisation of goodwill	8,577	5,737
Depreciation	5,661	6,697
Decrease in stock	2,347	1,946
Increase in debtors	(15,104)	(6,258)
Increase in creditors	1,670	6,412
(Loss)/profit on sale of fixed assets	(8)	16
Net cash inflow from operating activities	14,366	21,224

(b) Reconciliation of net cash flow to movement in net debt

	2009	*2008*
	£000	*£000*
Decrease in cash in the year	(3,178)	(8,085)
Cash flow from financing	(2,012)	(154,870)
Cash flow from amounts due to parent	3,251	115,374
Change in net debt resulting from cash flows	(1,939)	(47,581)
Finance leases acquired with subsidiaries	-	(900)
Finance leases	(238)	650
Non-cash movements	3,241	(5,627)
Difference on translation	-	635
	1,064	(52,823)
Net debt at start of year	(164,474)	(111,651)
Net debt at end of year	(163,410)	(164,474)

(c) Analysis of changes in net debt

	At 1 January 2009	*Cash flow*	*Other non-cash movements*	*At 31 December 2009*
	£000	*£000*	*£000*	*£000*
Cash at bank	3,718	(3,178)	-	540
Borrowings from parent	(12,676)	3,251	5,000	(4,425)
Long term loans	(153,941)	(2,488)	(1,759)	(158,188)
Finance leases	(1,575)	238	-	(1,337)
	(164,474)	(2,177)	3,241	(163,410)

Notes to the financial statements
at 31 December 2009

23. Capital commitments
The Group had no capital commitments at 31 December 2009 (2008 – £0 4 m)

24. Contingent liabilities
There were no contingent liabilities at 31 December 2009 (2008 – £nil)

25. Leasing commitments – group
Operating lease payments amounting to £3 0m (2008 – £1 6m) are due within one year The leases to which these amounts relate expire as follows

	Land and buildings 2009 £000	*Other 2009 £000*	*Land and buildings 2008 £000*	*Other 2008 £000*
In one year or less	744	2,278	535	1,139
Between one and five years	965	2,338	1,464	1,607
In five years or more	1,387	–	1,255	3
	3,096	4,616	3,254	2,749

26. Related parties
The group has taken advantage of the exemption available to wholly owned subsidiary undertakings under Financial Reporting Standard Number 8 ("Related Party Transactions"), and accordingly has not provided details of its transactions with entities forming part of the 2e2 group

27. Ultimate parent undertaking and controlling party
The company's ultimate parent undertaking is 2e2 Holdings Limited, a company incorporated in the United Kingdom 2e2 Holdings Limited is the only group preparing financial statements which are available from its registered address of The Mansion House, Benham Valence, Newbury, RG20 8LU The company's immediate parent undertaking is 2e2 Investments Limited