

Registered no: 05460327

XCHANGING PROCUREMENT SERVICES (EUROPE) LIMITED

Annual report

for the year ended 31 December 2008

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XCHANGING PROCUREMENT SERVICES (EUROPE) LIMITED

Annual report for the year ended 31 December 2008

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XCHANGING PROCUREMENT SERVICES (EUROPE) LIMITED

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Directors and advisors

Directors

M Batty
S Bouvier

Secretary

A Gallagher

Registered office

13 Hanover Square
London
W1S 1HN

Independent auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Bankers

Lloyds TSB
City Office
PO Box 72
Gillingham Business Park
Kent
ME8 0LS

**Directors' report
for the year ended 31 December 2008**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2008.

Business review and principal activity

The company is engaged in providing procurement services for indirect spend categories under long term outsourcing contracts.

The results for the company show a pre-tax profit of £6,000 (2007: £2,000) and sales of £125,000 (2007: £38,000). No dividends were paid or are proposed in the current or previous year.

Business environment

The Global Procurement outsourcing market is a relatively young but has experienced rapid growth over the past five years. The potential for future growth is high. A 2008 survey* estimated the Global procurement outsourcing market to be worth \$2 billion in 2008.

Business strategy

The company is a "Pure Play" BPO provider seeking to differentiate itself from competitors, who often provide outsourcing services alongside consultancy or IT integration.

The company differentiates itself from competitors in the following way:

- Delivers tangible cost reduction benefits to its clients through an innovative gain share structure.
- An emphasis on service performance measurement and management.
- Economies of scale and efficiency.
- A full service offering including transaction processing capability.

Training and development

The company consistently seeks to recruit and retain the best employees in our market place.

Learning and Development is a key facilitator of both business and individual performance. To this end the company has rolled out Xchanging competency training ("Xcellence Training") and technical training on various aspects of procurement and sourcing ("Sourcing Methodology Training") throughout our organisation.

*IDC, 'Economic Crisis Response: Worldwide and U.S. Business Process Outsourcing Services 2008–2012 Forecast – Market Opportunities by Key Horizontal Business Process Update', Doc#215861, Dec 2008.

**Directors' report
for the year ended 31 December 2008 (continued)**

Research and development

The company continues to invest in new technology platforms and in 2008 has developed an Enhanced Resourcing Service to provide an end to end Order to Cash capability, as well as the purchase and integration of an ESourcing tool and methodology to create further benefits to our customers.

The directors regard the investment in research and development as integral to the continuing success of the business and ensuring that we provide our customers with a full service offering.

Future outlook

A 2008 survey* forecasted that the Global Procurement Outsourcing Market will grow at 16-18% annually up to 2012.

Given the company's current market position and strategy, the directors remain confident that the level of activity will increase over the next year. The current global economic situation should accelerate market demand and create more opportunities as greater numbers of companies look to make savings on non-core processes and costs.

Key performance indicators

The directors of Xchanging Procurement Services (Europe) Limited use a range of key performance indicators (KPIs) to measure the business. The set of KPIs is constantly reviewed and changes over time with the development of the business. The range of measures includes customer and procurement category profitability and customer satisfaction levels.

Principal risks and uncertainties

The European Procurement Outsourcing market is highly competitive and there are a number of large multi-national players in the market who also provide processing and consulting services. The procurement outsourcing market is characterised by a small number of large deals outsourced each year.

Xchanging is a "pure-play" Business Process Outsourcing provider that seeks to differentiate itself through an innovative pricing model and an emphasis on detailed service performance measurements

*IDC, 'Economic Crisis Response: Worldwide and U.S. Business Process Outsourcing Services 2008-2012 Forecast – Market Opportunities by Key Horizontal Business Process Update', Doc#215861, Dec 2008.

**Directors' report
for the year ended 31 December 2008 (continued)**

Financial risk management

The company is exposed to a variety of financial risks which are reviewed on a regular basis in order to limit the adverse effects on the financial performance of the group. These are set out below:

- (i) **Foreign exchange risk**
The company has overseas operations in Continental Europe. The company is exposed to foreign exchange rate risks primarily with respect to the Euro. The company has reviewed the risks posed by these rate movements and has considered that at the present time natural hedges exist within the businesses and so the company does not use derivative financial instruments.
- (ii) **Interest rate cash flow risk**
The company has no interest bearing liabilities. The company does not use derivative financial instruments as exposure levels are not material.
- (iii) **Credit risk**
The company has a concentration of credit risk with respect to trade receivables. Credit risk assessments are performed when signing up new customers. A monthly credit control review is in place.
- (iv) **Liquidity risk**
The company actively monitors that it has sufficient funds for operations and any planned expansions. The company does not currently make use of any financing arrangements but this will continually reviewed as the business develops and matures.

The principal risk facing Xchanging Procurement Services (Europe) Limited is foreign exchange risk.

**Directors' report
for the year ended 31 December 2008 (continued)**

Directors

The directors who held office during the year and up to the date of signing the financial statements were:

Name	Date of appointment	Date of resignation
M Batty	27 February 2009	
S Bouvier		
P Rushton		27 February 2009

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws 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 financial statements in accordance with United Kingdom Generally Accepted Accounting practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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Directors' report for the year ended 31 December 2008 (continued)

Statement of disclosure of information to auditors

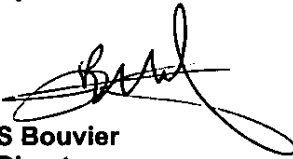
Each director of the company, in office at the time of approval of this report, acknowledges that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The company has elected to dispense with the requirement to appoint auditors annually, therefore, in the absence of a notice proposing that the appointment be terminated, PricewaterhouseCoopers LLP will continue as auditors to the company.

By order of the board



**S Bouvier
Director
26 March 2009**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XCHANGING PROCUREMENT SERVICES (EUROPE) LIMITED

We have audited the financial statements of Xchanging Procurement Services (Europe) Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.


We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XCHANGING PROCUREMENT SERVICES (EUROPE) LIMITED (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
27 March 2009

XCHANGING PROCUREMENT SERVICES (EUROPE) LIMITED

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Profit and loss account for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Turnover – continuing operations	2	125	38
Operating costs – continuing operations	3	<u>(119)</u>	<u>(36)</u>
Operating profit – continuing operations		6	2
Tax charge on profit on ordinary activities	6	(2)	-
Profit for the financial year	11	<u>4</u>	<u>2</u>

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

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

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Balance sheet as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Current assets			
Debtors: amounts falling due within one year	7	49	41
Cash at bank and in hand		7	-
		<u>56</u>	<u>41</u>
Creditors: amounts falling due within one year	8	<u>(27)</u>	<u>(18)</u>
Net current assets		29	23
 Provisions for liabilities and charges	9	 -	 (5)
 Net assets		 <u>29</u>	 <u>18</u>
 Capital and reserves			
Called up share capital	10	-	-
Profit and loss reserve	11	29	18
		<u>29</u>	<u>18</u>
Equity shareholders' funds	12	29	18

The financial statements on pages 9 to 17 were approved by the board of directors on 26 March 2009 and were signed on its behalf by:


S Bouvier
Director

**Notes to the financial statements
for the year ended 31 December 2008**

1 Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which, unless otherwise stated, have been applied consistently with the prior year, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Cash flow statement exemption

The company is a wholly owned subsidiary of Xchanging Procurement Services Limited and is included in the consolidated financial statements of Xchanging plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate based on projections for the foreseeable future.

Turnover

Turnover, which is stated exclusive of value added tax, is recognised only when it is probable that the economic benefits associated with a transaction will flow to the company. Turnover has been accounted for on an accruals basis over the period in which the management charges fall due.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and any differences arising are taken to the profit and loss account.

Debtors

Debtors are recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Cash

Cash includes cash in hand and demand deposits which are readily convertible to cash and are subject to minimal risk of changes in value. Cash held in foreign currencies is recognised at the exchange rate ruling on the balance sheet date.

Creditors

Creditors are stated at fair value and subsequently measured at amortised cost.

**Notes to the financial statements
for the year ended 31 December 2008 (continued)**

1 Principal accounting policies (continued)

Provisions

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the size of which can be reliably estimated. Where the provision is long term, such as onerous contract provisions where the unavoidable costs of meeting obligations exceed any economic benefits expected to be received, the net cash flows are discounted using the an appropriate pre tax discount rate.

Restructuring provisions are only recognised if an obligation exists at the balance sheet date i.e. a formal plan exists and those affected by that plan have a valid expectation that the restructuring will be carried out.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. However, deferred tax assets are regarded as recoverable and therefore recognised, only when, on the basis of all available evidence, 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 a non-discounted basis at the 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.

Related party transactions

The company has taken advantage of the exemption available in Financial Reporting Standard 8 not to disclose transactions with related parties that are more than 90% owned by the Xchanging group.

**Notes to the financial statements
for the year ended 31 December 2008 (continued)**

2 Turnover

Contributions to turnover by geographical destination and origin are analysed below:

	By destination 2008 £'000	By destination 2007 £'000	By origin 2008 £'000	By origin 2007 £'000
Europe	125	38	125	38
	<u>125</u>	<u>38</u>	<u>125</u>	<u>38</u>

3 Operating costs

Operating costs comprise:	2008 £'000	2007 £'000
Staff costs:		
Wages and salaries	89	83
Social security costs	<u>9</u>	<u>7</u>
	98	90
Other operating costs	<u>21</u>	<u>(54)</u>
	<u>119</u>	<u>36</u>
Other operating costs include the following:		
Auditors' remuneration – audit services	-	(6)
Restructuring provision	(5)	(78)

In 2007, £78,000 of a 2006 restructuring provision was released. This release was fully utilised in the year, and the relevant costs included in staff costs.

For the current and prior year, the auditors' remuneration was borne by Xchanging Procurement Services Limited. In the prior year there was a release of an audit fee accrual amounting to £6,000 relating to 2006.

4 Directors' emoluments

The directors' remuneration is borne by another group company.

During the year 1 director exercised options over 5p shares of Xchanging plc (2007: 2 directors exercised options over 5p shares of Xchanging plc and Euro 0.01 shares of Xchanging B.V.).

**Notes to the financial statements
for the year ended 31 December 2008 (continued)**

5 Employees

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2008 Number	2007 Number
By activity		
Service delivery	1	2
	<u>1</u>	<u>2</u>

6 Tax charge on profit on ordinary activities

	2008 £'000	2007 £'000
United Kingdom:		
UK Corporation tax on profits of the year	1	-
Adjustment in respect of prior periods	<u>2</u>	<u>-</u>
	3	-
Foreign tax:		
Other timing differences	(1)	-
	<u>2</u>	<u>-</u>
Total current tax charge	<u>2</u>	<u>-</u>

The current tax assessed for the period is higher (2007: lower) than the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are explained below.

Profit on ordinary activities before tax	<u>6</u>	<u>2</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	1	1
Adjustment in respect of prior periods	2	(1)
Other timing differences	<u>(1)</u>	<u>-</u>
Tax charge	<u>2</u>	<u>-</u>

**Notes to the financial statements
for the year ended 31 December 2008 (continued)**

7 Debtors

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	48	41
Deferred tax asset	1	-
	<u>49</u>	<u>41</u>

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

8 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Corporation tax	11	6
Taxation and social security	9	7
Accruals and deferred income	7	5
	<u>27</u>	<u>18</u>

9 Provisions for liabilities and charges

	Restructuring provision £'000
At 1 January 2008	5
Released to profit and loss account	(5)
At 31 December 2008	<u>-</u>

The restructuring provision relates to management redundancies as a result of the strategic realignment of various aspects of the business in order to increase productivity and reduce costs. As the provision held at 1 January 2008 was no longer required it was released to the profit and loss account during the year.

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Notes to the financial statements for the year ended 31 December 2008 (continued)

10 Called up share capital

	2008 £	2007 £
Authorised		
100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
1 ordinary share of £1	1	1
	<u>1</u>	<u>1</u>

11 Reserves

	Profit and loss reserve £'000
At 1 January 2008	18
Profit for the financial year	4
Exchange adjustment on opening reserves	7
At 31 December 2008	<u>29</u>

**Notes to the financial statements
for the year ended 31 December 2008 (continued)**

12 Reconciliation of movements in equity shareholders' funds/(deficit)

	2008	2007
	£'000	£'000
Opening equity shareholders' funds	18	16
Profit for the financial year	4	2
Exchange adjustment on opening reserves	7	-
Closing equity shareholders' funds	<u>29</u>	<u>18</u>

13 Parent undertaking and ultimate controlling party

The company's immediate parent is Xchanging Procurement Services Limited.

Xchanging plc, a company incorporated in England and Wales is the ultimate parent undertaking. The results of Xchanging Procurement Services (Europe) Limited are included in the Xchanging plc consolidated accounts; copies of which may be obtained from Xchanging plc, 13 Hanover Square, London, W1S 1HN, United Kingdom. Xchanging plc is the only undertaking to include the results of the company in its consolidated accounts.