

## **2e2 Holdings Limited**

### **Report and Financial Statements**

31 December 2011

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COMPANIES HOUSE

**Directors**

T Burt (Chief Executive)  
M McVeigh  
N Grossman  
S Burt  
J Loveland  
G Love (appointed 26<sup>th</sup> April 2011)  
M Collins  
F Chauffier

**Secretary**

S Burt

**Auditors**

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

**Bankers**

Bank of Scotland  
155 Bishopsgate  
London EC2M 3YB

HSBC Bank plc  
70 Pall Mall  
London SW1Y 5EZ

Lloyds TSB Bank plc  
25 Gresham Street  
London EC2V 7HN

Royal Bank of Canada  
Thames Court  
One Queen Hithe  
London EC4V 4DE

Barclays Bank plc  
1 Churchill Place  
London, E14 5HP

**Solicitors**

DLA Piper UK LLP  
3 Noble Street  
London, EC2V 7EE

**Registered Office**

The Mansion House  
Benham Valence  
Newbury  
Berkshire RG20 8LU  
United Kingdom

Registered No 05929340

## **Directors' report**

The directors present their report and financial statements for the year ended 31 December 2011

### **Results and dividends**

The Group operating profit for the year from continuing businesses and before fundamental restructuring costs amounted to £3.1m (2010 Restated £5.1m). The directors do not recommend a final dividend (2010 £nil).

### **Principal activity and review of the business**

The principal activity of the Group is the delivery of outsourced computer services focusing on Unified Communications, Technology Solutions, Professional Consulting, Managed Services and Business Applications Solutions. During the year the UK organisation was re-aligned to an industry-aligned go-to-market structure. The services of the Group are delivered to customers in the UK and Europe. The Group continues to expand its activities through a combination of organic growth and acquisitions, and to rationalise sub-optimal operations through divestment or disposal.

The retained loss for the year after taxation amounted to £25.8m (2010 Restated £22.3m).

As per last year, certain exceptional one-off costs, included within operating profit, have been highlighted on the face of the profit and loss account to give a better understanding of the underlying performance of the Group. These costs amount to £13.0m (2010 £5.7m) and relate to the integration and restructuring of the UK companies, and redundancy and restructuring costs in the Netherlands.

During the year the Group disposed of two divisions of its Dutch subsidiary for a cash consideration of €0.3m and the trade and assets of Xayce Ltd for a cash consideration of £2.3m (see Note 24).

### **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, cash conversion 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.

### **Future developments**

In the future the Group will continue to investigate suitable acquisition opportunities where it feels these will strengthen its offerings to customers. The Group is also planning to continue the integration activities in order to maximise the benefits of the increasing scale of the Group.

### **Principal risks and uncertainties**

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

#### **Market risk**

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. The company manages its cost base tightly in order to ensure that it is aligned to the level of demand.

## **Directors' report (continued)**

### **Principal risks and uncertainties (continued)**

#### **Operational risk**

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. During the year the group updated its service management tools and is in the process of updating its ERP systems.

#### **Liquidity risk**

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 revolving credit facilities, long term debt and invoice factoring facilities. The group maintains and reviews short term and long term cash flow forecasts on a regular basis to identify ongoing cash requirements.

#### **Interest rates**

This 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 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.

#### **Foreign exchange risk**

A number of transactions are denominated in currencies other than the functional currency, which is £ sterling. There is a risk that the exchange rate moves between the date of the transaction and the date of settlement resulting in a financial loss. To mitigate this risk, material assets and liabilities not denominated in the functional currency are hedged by means of forward currency contracts.

#### **Going concern**

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

## Directors' report (continued)

### Directors

The directors who served during the year and to the date of this report were as follows

E Priestley (resigned 25<sup>th</sup> February 2011)

S Pathakji (resigned 25<sup>th</sup> February 2011)

T Burt

M McVeigh

N Grossman

S Burt

J Loveland

M Collins

F Chauffier

G Love (appointed 26<sup>th</sup> April 2011)

The directors' interests in the share capital of 2e2 Holdings Limited, the ultimate holding company, are as follows

	<i>Number of A ord shares</i>	<i>Number of C ord shares</i>	<i>Number of D ord shares</i>	<i>Number of C preferred ord shares</i>	<i>Number of B preferred ord shares</i>
G Love	20,677	—	29,323	—	—
E Priestley	—	7,500	66,657	—	106,875
T Burt	133,592	542,194	—	1,763,309	1,458,568
M McVeigh	106,671	438,432	—	1,421,124	1,175,520
N Grossman	66,840	60,605	—	194,091	105,952
S Burt	93,576	60,605	—	194,091	105,952
J Loveland	—	8,263	13,334	19,003	54,628
M Collins	—	—	—	—	—
F Chauffier	—	—	—	—	—

Their interests in the share capital at the end of the previous financial year were as follows

	<i>Number of A ord shares</i>	<i>Number of C ord shares</i>	<i>Number of D ord shares</i>	<i>Number of C preferred ord shares</i>	<i>Number of B preferred ord shares</i>
	£	£	£	£	£
G Love	—	—	—	—	—
E Priestley	—	7,500	66,657	—	106,875
T Burt	133,592	542,194	—	1,763,309	1,458,568
M McVeigh	106,671	438,432	—	1,421,124	1,175,520
N Grossman	66,840	60,605	—	194,091	105,952
S Burt	93,576	60,605	—	194,091	105,952
J Loveland	—	8,263	13,334	19,003	54,628
M Collins	—	—	—	—	—
F Chauffier	—	—	—	—	—

No director had, during or at the end of the period, a material interest in any contract, which was significant in relation to the group's business

## Directors' report (continued)

### 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.

### 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.

### 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.

### Policy and practice on payment of creditors

It is the policy of the Group to pay all amounts due to suppliers as they fall due. As at 31 December 2011, trade creditors of the Group were equivalent to 54 days purchases (2010 – 52 days).

### Share-based payments

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. During the year a total of 356,500 options were granted in 2e2 Group Ltd.

### Corporate governance

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

### Disclosure of information to the auditors

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

### 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

4 October 2012

## Statement of directors' responsibilities

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 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

## **to the members of 2e2 Holdings Limited**

We have audited the financial statements of 2e2 Holdings Limited for the year ended 31 December 2011 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 statement of Cash Flows and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's and the Group'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. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 undertaking's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



## **Independent auditors' report (continued)**

**to the members of 2e2 Holdings Limited**

### **Matters on which we are required to report by exception**

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

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

*Ernst & Young LLP*

Kevin Harkin (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

Reading

5 October 2012

## Group profit and loss account

for the year ended 31 December 2011

		2011	Restated 2010
	Notes	£000	£000
<b>Turnover</b>			
Continuing operations		395,970	211,993
Acquisitions		–	113,282
		<u>395,970</u>	<u>325,275</u>
Discontinued operations		7,653	–
Group turnover	2	403,623	325,275
Cost of sales		<u>(299,209)</u>	<u>(213,105)</u>
<b>Gross profit</b>		104,414	112,170
Administration expenses		(90,709)	(101,333)
Exceptional administration expenses	3	<u>(11,769)</u>	<u>(5,725)</u>
<b>Operating profit</b>			
Continuing operations		3,117	(4,784)
Acquisitions	3	–	9,896
		<u>3,117</u>	<u>5,112</u>
Discontinued operations		(1,181)	–
Group operating profit	3	<u>1,936</u>	<u>5,112</u>
Cost of fundamental restructuring	3	(3,409)	(4,875)
Net interest payable	6	<u>(23,226)</u>	<u>(22,819)</u>
<b>Loss on ordinary activities before taxation</b>		(24,699)	(22,582)
Tax	7	<u>(1,142)</u>	<u>323</u>
<b>Loss for the year</b>	22	<u>(25,841)</u>	<u>(22,259)</u>

## Group statement of total recognised gains and losses

for the year ended 31 December 2011

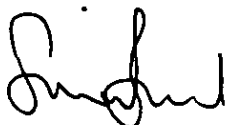
	2011	2010
	£000	Restated £000
Loss for the financial year	(25,841)	(22,259)
Currency translation differences on foreign currency net investments	64	646
<b>Total recognised gains and losses related to the year</b>	<u>(25,777)</u>	<u>(21,613)</u>
Prior year adjustment (as explained in Note 1)	<u>(2,903)</u>	
<b>Total gains and losses since last annual report</b>	<u>(28,680)</u>	

## Group balance sheet

at 31 December 2011

	Notes	2011 £000	Restated 2010 £000
<b>Fixed assets</b>			
Intangible assets	10	246,164	262,125
Tangible assets	11	13,467	14,985
		<u>259,631</u>	<u>277,110</u>
<b>Current assets</b>			
Stocks	13	7,828	8,077
Debtors– amounts due within one year	14	162,347	153,643
– amounts due after more than one year	14	4,200	6,328
Cash at bank and in hand		<u>25,600</u>	<u>18,649</u>
		199,975	186,697
<b>Creditors</b> amounts falling due within one year	15	<u>(180,411)</u>	<u>(175,531)</u>
<b>Net current assets</b>		<u>19,564</u>	<u>11,166</u>
<b>Total assets less current liabilities</b>		<u>279,195</u>	<u>288,276</u>
 Provisions	16	 (6,052)	 (6,086)
<b>Creditors</b> amounts due after more falling than one year	17	<u>(270,421)</u>	<u>(257,180)</u>
<b>Net assets</b>		<u>2,722</u>	<u>25,010</u>
 <b>Capital and reserves</b>			
Called up share capital	21	134,510	131,084
Share premium account	22	9,014	9,010
Other reserves	22	59	–
Profit and loss account	22	<u>(140,861)</u>	<u>(115,084)</u>
<b>Shareholders' funds</b>		<u>2,722</u>	<u>25,010</u>

The financial statements were approved by the board of directors and authorised for issue on 4 October 2012. They were signed on behalf of the board by



Simon Burt  
Director

## Company balance sheet

at 31 December 2011

	Notes	2011 £000	2010 £000
<b>Fixed assets</b>			
Tangible assets	11	1	—
Investments	12	106,154	106,154
		<u>106,155</u>	<u>106,154</u>
<b>Current assets</b>			
Debtors amounts due within one year	14	173,140	61,140
Cash at bank		12	2
		<u>173,152</u>	<u>61,142</u>
<b>Creditors</b> amounts falling due within one year	15	(161,489)	(41,416)
<b>Net current assets</b>		<u>11,663</u>	<u>19,726</u>
<b>Total assets less current liabilities</b>		<u>117,818</u>	<u>125,880</u>
<b>Creditors</b> amounts falling due after more than one year	17	(15,123)	(15,123)
<b>Net assets</b>		<u>102,695</u>	<u>110,757</u>
<b>Capital and reserves</b>			
Called up share capital	21	134,510	131,084
Share premium account	22	9,014	9,010
Profit and loss account	22	(40,829)	(29,337)
<b>Equity shareholders' funds</b>		<u>102,695</u>	<u>110,757</u>

The financial statements were approved by the board of directors and authorised for issue on 4 October 2012. They were signed on behalf of the board by



Simon Burt

Director

## Group Statement of cash flows

for the year ended 2011

	Notes	2011 £000	2010 £000
<b>Net cash inflow from operating activities</b>	23(a)	16,237	18,955
<b>Returns on investments and servicing of finance</b>			
Interest received		58	66
Interest paid		(14,168)	(14,801)
Finance lease interest paid		(42)	(100)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(14,152)	(14,835)
<b>Taxation</b>		988	455
<b>Capital expenditure and financial investment</b>			
Purchase of intangible fixed assets		(1,769)	–
Purchase of tangible fixed assets		(4,153)	(6,051)
<b>Net cash outflow from capital expenditure and financial investment</b>		(5,922)	(6,051)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		–	(69,629)
Net cash from purchase of subsidiary undertakings		–	11,435
Sale of subsidiaries		2,316	–
Payments in respect of prior year acquisitions		(2,367)	–
<b>Net cash outflow from acquisitions and disposals</b>		(51)	(58,194)
<b>Financing</b>			
Outflow of borrowings		(1,907)	(4,561)
Issue of loan notes		9,215	83,000
Issue of share capital		3,430	–
Finance leases		(887)	(663)
<b>Net cash inflow from financing</b>		9,851	77,776
<b>Increase in cash</b>	23(b)	6,951	18,106

## Notes to the financial statements

at 31 December 2011

### 1. Accounting policies

#### *Basis of preparation and change in accounting policy*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

In preparing the financial statements for the current year, the group has changed its accounting policy for revenue recognition on managed service contracts

The business had historically recognised revenue at the point a contract was awarded to a value reflecting the work carried out, but before the finalisation of the final terms and conditions of the contract. As projects have become larger and more complex, contract terms and conditions often take longer to negotiate. The group has adjusted its policy and now recognises revenues only where a contractual relationship is established. Evidence might take the form of a signed contract, purchase order, or an invoice to the customer for services. In the event that a contractual relationship is not established during the period, the group will recognise revenue associated with the contract where there is a reasonable expectation that the group will recover the pre-contract costs.

In order to determine the prior year adjustment value, the group reviewed each contract relevant to the revenue taken and identified the date that the contractual relationship was established. An adjustment has been made where the contractual relationship was established outside of the prior year period. In these cases, the group does not consider it prudent to recognise any revenue to recover pre-contract costs due to the amount of time that has passed and the difficulty in identifying any costs incurred.

In light of the materiality of the amounts involved, the directors are of the opinion that it is appropriate to adjust the comparatives for the year ended 31 December 2010 retrospectively and therefore the effect has been treated as a prior year adjustment. The directors believe this will ensure that the results for the current period are not distorted and that the prior periods have the correct amount of revenue and profits.

The effect of this adjustment is to increase the loss after tax by £1.8m for the year ended 31 December 2010 and reduce net assets by £2.9m as at that date, including a £2.9 million reduction to retained reserves as at 31 December 2010.

#### *Basis of consolidation*

The Group financial statements consolidate those of the company and of all its subsidiary undertakings (see Note 12), drawn up to 31 December 2011.

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.

## Notes to the financial statements (continued)

at 31 December 2011

### 1. Accounting policies (continued)

#### *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. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

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

#### *Intangible assets- development costs*

An internally generated intangible asset arising from the Group's development activities is recognised if all of the following conditions are met:

- An asset is created that can be separately identified,
- It is probable that the asset created will generate future economic benefits, and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value is not recoverable.

#### *Related party transactions*

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

#### *Turnover*

##### **Sales of Goods**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer usually on despatch.

##### **Rendering of Services**

Revenue from the provision of services is recognised on a time and materials basis in the period in which the services are provided.

##### **Managed service contracts**

Where the outcome cannot be estimated reliably, revenue is recognised to the extent that costs incurred will probably be recovered. When it is probable that total contract costs will exceed total contract revenues, the expected loss is recognised as an expense immediately.

## Notes to the financial statements (continued)

at 31 December 2011

### 1. Accounting policies (continued)

#### *Tangible fixed assets*

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

The carrying value of tangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

#### *Investments*

Investments are included at cost less amounts written off

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

#### *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

#### *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 (continued)

at 31 December 2011

### 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.

#### *Interest rate swaps*

The Group's criteria for interest rate swaps are:

- The instrument must be related to an asset or liability, and
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing with net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If they are terminated early, the cost is spread over the remaining maturity of the original instrument.

#### *Interest bearing loans*

All interest bearing loans and borrowings are initially recognised at net proceeds. After initial recognition, debt is increased by the finance cost in respect of the reporting period and reduced by repayments made in the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Costs associated to raising the debt are held on the balance sheet and recognised in the profit and loss account over the term of the corresponding debt.

#### *Leasing and hire purchase commitments*

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 periodic rate of charge on the remaining balance of the obligation for each accounting period 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.

#### *Provisions*

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

## Notes to the financial statements (continued)

at 31 December 2011

### 1. Accounting policies (continued)

#### *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-based payments*

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, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, as stated in the directors' report.

An analysis of turnover by geographical market is given below.

	2011	<i>Restated</i> 2010
	£000	£000
UK (including the Channel Islands and the Isle of Man)	306,154	243,800
Europe	94,770	75,435
Rest of world	2,699	6,030
	<u>403,623</u>	<u>325,265</u>

## Notes to the financial statements (continued)

at 31 December 2011

### 3. Operating profit

This is stated after charging

	2011 £000	2010 £000
Auditors' remuneration – audit services – UK	330	375
– Overseas	98	89
– non-audit services	130	134
Depreciation and amortisation		
– goodwill (Note 10)	15,687	14,430
– development costs (Note 10)	714	–
– tangible fixed assets – owned	5,494	6,620
– held under finance leases and hire purchase contracts	832	595
FRS 20 share option charges	27	–
Other operating lease rentals	4,697	6,422
Exceptional restructuring and integration costs	11,769	5,725

The restructuring and integration costs incurred in the period relate to the following activities

	2011 £000	2010 £000
Integration and restructuring in the UK group	8,516	4,012
Integration and restructuring in the Netherlands group	1,869	1,362
Integration and restructuring in Other Divisions	1,384	351
	11,769	5,725

#### Fundamental restructuring costs

In 2011, the Group incurred costs of £3.4m in relation to fundamental restructuring costs. These costs were incurred as part of the completion of the integration of Morse plc, acquired in 2010 and the offshoring of certain services to Patni Computer Systems.

In 2010, the Group incurred costs of £4.9m in relation to a fundamental reorganisation. These costs were incurred as a result of the reorganisation of the management and operations within the UK business following the acquisition and subsequent integration of Morse plc. The businesses had previously been organised as separately managed corporate entities. The reorganisation of the operations included the transfer of certain services to Patni Computer Systems, our offshore service provider.

### 4. Directors' remuneration

	2011 £000	2010 £000
Remuneration	1,218	841
Pension contributions to money purchase pension schemes	117	93
Payments to third parties for directors' services	199	146
	1,534	1,080

## Notes to the financial statements (continued)

at 31 December 2011

### 4. Directors' remuneration (continued)

The amounts set out above include remuneration in respect of the highest paid director for the year as follows

	2011 £000	2010 £000
Remuneration	451	268
Pension contributions to money purchase pension schemes	47	52

During the year three directors participated in money purchase pension schemes (2010 – four)

### 5. Staff costs

	2011 £000	2010 £000
Wages and salaries	91,760	72,739
Social security costs	11,792	8,926
Other pension costs	2,287	1,982
	<u>105,839</u>	<u>83,647</u>

On the acquisition of Morse plc in June 2010, 2e2 Group assumed the defined benefit pension liabilities which may arise under the South Tyneside & Gateshead ('ST&G') Building Schools for the Future contract. A provision of £0.9m is maintained in the balance sheet and is based on an actuarial valuation carried out in 2011. At 31 December 2011, there were 16 employees in the pension scheme.

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

	No	No
Management and administration	252	245
Sales and marketing	308	266
Operations	1,421	1,115
	<u>1,981</u>	<u>1,626</u>

### 6. Net interest payable

	2011 £000	2010 £000
On bank loans, overdrafts and other loans	20,918	22,785
Finance charges in respect of finance leases	148	100
Other interest payable and similar charges	2,360	–
Other interest receivable and similar income	(200)	(66)
	<u>23,226</u>	<u>22,819</u>

## Notes to the financial statements (continued)

at 31 December 2011

### 7. Tax

#### (a) Tax on loss on ordinary activities

The tax charge is made up as follows

	2011 £000	2010 £000
<b>Current tax</b>		
UK corporation tax on the loss for the year	1,772	–
Overseas taxation	(630)	(323)
Total current tax (Note 7(b))	1,142	(323)
<b>Deferred tax</b>		
Origination and reversal of timing differences	–	–
Total deferred tax (Note 20)	–	–
Tax on loss on ordinary activities	1,142	(323)

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26.5% (2010 – 28%). The differences are explained below

	2011 £000	Restated 2010 £000
Loss on ordinary activities before tax	(24,699)	(22,582)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 – 28%)	(6,545)	(5,984)
<b>Effects of</b>		
Expenses not deductible for tax purposes	8,700	11,221
Capital allowances in advance of depreciation	1,077	1,191
Brought forward tax losses utilised	(620)	(7,216)
Adjustments in respect of prior years	(630)	–
Group relief	(451)	–
Other timing differences	(389)	465
Current tax for the year (Note 7(a))	1,142	(323)

## Notes to the financial statements (continued)

at 31 December 2011

### 8. Loss for the financial year

The company's loss for the year was £11.5m (2010 loss of £3.4m)

### 9. Dividends

No dividends were paid or declared during the year

### 10. Intangible fixed assets

*Group*

	2011		2010	
	£000		£000	
Goodwill and development costs	246,164		262,125	

<i>Group</i>	<i>Goodwill</i>	<i>Negative</i>	<i>Total</i>	<i>Development</i>	<i>Total</i>
	<i>£000</i>	<i>Goodwill</i>	<i>Goodwill</i>	<i>costs</i>	<i>intangibles</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost					
At 1 January 2011	306,258	(375)	305,883	2,135	308,018
Adjustments	425	–	425	–	425
Additions	–	–	–	1,769	1,769
Disposals (Note 25)	(1,809)	–	(1,809)	–	(1,809)
At 31 December 2011	304,874	(375)	304,499	3,904	308,403
Amortisation					
At 1 January 2011	(45,897)	375	(45,522)	(371)	(45,893)
Provided in year	(15,687)	–	(15,687)	(714)	(16,401)
Disposals	55	–	55	–	55
At 31 December 2011	(61,529)	375	(61,154)	(1,085)	(62,239)
Net book value					
At 31 December 2011	243,345	–	243,345	2,819	246,164
At 1 January 2011	260,361	–	260,361	1,764	262,125

The amounts included within adjustments are revisions to the provisional goodwill arising on the acquisition of Morse plc in June 2010

The adjustments reflect increases in the fair value of provisions in respect of onerous property leases (£0.4m), dilapidation costs (£0.3m) and defined benefit pension liabilities (£0.2m) partly offset by reductions in respect of accrued income provisions (£0.4m) and cost accruals (£0.1m)

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 (continued)

at 31 December 2011

### 11. Tangible fixed assets

<i>Group</i>	<i>Leasehold improve- ments £000</i>	<i>Motor vehicles £000</i>	<i>Fixtures, fittings and computer equipment £000</i>	<i>Total £000</i>
<b>Cost</b>				
At 1 January 2011	3,484	216	26,793	30,493
Additions	–	42	4,111	4,153
Disposals	–	(77)	(753)	(830)
At 31 December 2011	<u>3,484</u>	<u>181</u>	<u>30,151</u>	<u>33,816</u>
<b>Depreciation</b>				
At 1 January 2011	1,795	173	13,540	15,508
Provided in the year	210	26	5,258	5,494
Foreign Exchange	–	–	(6)	(6)
Disposals	–	(72)	(575)	(647)
At 31 December 2011	<u>2,005</u>	<u>127</u>	<u>18,217</u>	<u>20,349</u>
<b>Net book value</b>				
At 31 December 2011	<u>1,479</u>	<u>54</u>	<u>11,934</u>	<u>13,467</u>
At 1 January 2011	<u>1,689</u>	<u>43</u>	<u>13,253</u>	<u>14,985</u>

The net book value of fixed assets includes £1.4m (2010: £1.0m) for computer and other equipment in respect of assets held under finance leases and hire purchase contracts

<i>Company</i>	<i>Computer equipment £000</i>
<b>Cost</b>	
At 1 January 2011	–
Additions	<u>1</u>
At 31 December 2011	<u>1</u>
<b>Depreciation</b>	
At 1 January 2011	–
Provided in the year	<u>–</u>
At 31 December 2011	<u>–</u>
<b>Net book value</b>	
At 31 December 2011	<u>1</u>
At 1 January 2011	<u>–</u>

## Notes to the financial statements (continued)

at 31 December 2011

### 12. Investments

*Company*

*Subsidiary  
undertakings  
£*

At beginning and end of year

106,154

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)***

2e2 Limited	2e2 Group Limited
2e2 Investments Limited	2e2 UK Limited
2e2 Offshore Limited	2e2 Property Group Limited
Netstore Limited	Morse Overseas Holdings Limited
Morse Group Limited	Morse Limited
Diagonal Solutions Limited	Diagonal Consulting Limited
Xayce Limited	

***Incorporated in the Netherlands***

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

***Incorporated in Spain***

Morse Spain SL

***Incorporated in Ireland***

Morse Computer Group Limited

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



## Notes to the financial statements (continued)

at 31 December 2011

### 13. Stocks

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Spare parts	1,667	–	2,037	–
Goods for resale	5,823	–	5,966	–
Other stock	338	–	74	–
	<u>7,828</u>	<u>–</u>	<u>8,077</u>	<u>–</u>

### 14. Debtors

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>Restated</i>	<i>Company</i>
	<i>£000</i>	<i>£000</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	69,609	36	95,832	–
Prepayments and accrued income	90,610	65	57,811	42
Amounts due from group undertakings	–	173,039	–	61,098
Deferred tax asset (Note 20)	6,328	–	6,328	–
	<u>166,547</u>	<u>173,140</u>	<u>159,971</u>	<u>61,140</u>

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

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Deferred tax asset	<u>4,200</u>	<u>–</u>	<u>6,328</u>	<u>–</u>

## Notes to the financial statements (continued)

at 31 December 2011

### 15. Creditors: amounts falling due within one year

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank loans	6,787	–	6,400	–
Trade creditors	65,263	706	77,389	1,483
Amounts owed to group undertakings	–	160,295	–	39,342
Tax and social security	17,799	–	10,903	–
Accruals	45,083	488	46,314	591
Deferred income	44,754	–	34,105	–
Amounts due under finance leases	725	–	420	–
	<u>180,411</u>	<u>161,489</u>	<u>175,531</u>	<u>41,416</u>

Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate

### 16. Provisions

	<i>Property</i>	<i>Dilapidations</i>	<i>Other</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2011	3,358	1,132	1,596	6,086
Arising during the year	800	311	200	1,311
Utilised during the year	(881)	(181)	(283)	(1,345)
At 31 December 2011	<u>3,277</u>	<u>1,262</u>	<u>1,513</u>	<u>6,052</u>
Current 2011	791	–	–	791
Non-current 2011	<u>2,486</u>	<u>1,262</u>	<u>1,513</u>	<u>5,261</u>
	<u>3,277</u>	<u>1,262</u>	<u>1,513</u>	<u>6,052</u>

#### **Property**

The property provision is made up of £3.0m in 2e2 UK Ltd in respect of the exit of two properties as part of the Morse integration and £0.3m in 2e2 Property Ltd whereby the sub tenant is entitled to exit the property before 2e2 Property Ltd's lease expiry date

#### **Dilapidations**

The dilapidations provision reflects a liability as at 31st December 2011 for potential costs that the businesses are likely to incur to bring all properties to the same state as required by the lease contract

#### **Other**

Other provisions include £0.5m for potential refund claims on products sold during the last five years and £0.9m in 2e2 UK Ltd for defined benefit pension liabilities which may arise under the South Tyneside & Gateshead Building Schools for the future contract

## Notes to the financial statements (continued)

at 31 December 2011

### 17. Creditors: amounts falling due after more than one year

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Interest accrued on loan notes and preference shares	21,830	15,123	20,072	15,123
Investor loan notes	94,215	–	85,000	–
Finance leases	537	–	254	–
Deferred income	1,100	–	1,927	–
Bank loans	152,739	–	149,927	–
	<u>270,421</u>	<u>15,123</u>	<u>257,180</u>	<u>15,123</u>

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:

- Term Loan A – in the amount of £25.2 million is repayable in instalments. A total of £6.8 million is repayable within one year with the balance payable in instalments finishing on 30 June 2015. Interest is charged at the rate of LIBOR plus 2.25% to 4.50%.
- Term Loan B – in the amount of £37.4 million is repayable in a single instalment on 10 October 2016. Interest is charged at the rate of LIBOR plus 3.00% to 5.00%.
- Term Loan C – in the amount of £37.4 million is repayable in a single instalment on 10 October 2017. Interest is charged at the rate of LIBOR plus 5.50%.
- Revolving Facility – in the amount of £18.4 million is repayable in a single instalment on 30 September 2013. Interest is charged at the rate of LIBOR plus 2.25% to 4.50%.
- Mezzanine Facility – in the amount of £35.0 million is repayable in a single instalment on 10 October 2018. Interest is payable at the rate of LIBOR plus 16.00%. 11.00% of the interest is not due for payment and rolls up until 10 October 2018.

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

Investor loan notes refer Hutton Collins Partners loan notes of £85m of secured notes of £1.00 each on which interest will start to accrue from 30 June 2017 at LIBOR plus 8% and £9.2m of loan notes of £1.00 each on which interest started to accrue from 4<sup>th</sup> January 2011 at a rate of 18% compounded quarterly.

## Notes to the financial statements (continued)

at 31 December 2011

### 18. Leasing commitments – group

Operating lease payments amounting to £1 4m (2010 £2 5m) are due within one year. The leases to which these amounts relate expire as follows

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
In one year or less	767	623	814	1,633
Between one and five years	2,810	679	2,415	2,052
In five years or more	2,460	–	1,449	–
	<u>6,037</u>	<u>1,302</u>	<u>4,678</u>	<u>3,685</u>

### 19. Borrowings

Borrowings are repayable as follows

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Within one year				
Bank and other borrowings	6,787	–	6,400	–
Finance leases	725	–	420	–
After one and within two years				
Bank and other borrowings	7,585	–	6,800	–
Finance leases	537	–	254	–
After two years and within five years				
Bank and other borrowings	66,701	–	31,894	–
Finance leases	–	–	–	–
After five years				
Bank and other borrowings	197,388	15,123	219,766	15,123
Less issue costs	(2,890)	–	(3,461)	–
	<u>276,833</u>	<u>15,123</u>	<u>262,073</u>	<u>15,123</u>

## Notes to the financial statements (continued)

at 31 December 2011

### 19. Borrowings (continued)

Bank and other borrowings repayable after five years comprise

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank and other borrowings	72,428	–	110,000	–
Loan notes	94,215	–	85,000	–
Accrued interest	30,745	15,123	24,766	15,123
	<u>197,388</u>	<u>15,123</u>	<u>219,766</u>	<u>15,123</u>

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

Through its Spanish business unit, the Group has access to customer specific funding through debt factoring arrangements with a number of financing institutions in Spain. Morse Spain SL receives funds from the financing institutions which are then repaid as cash is received from the customer. At 31 December 2011 the outstanding borrowings balance was £5.9m (2010: £3.9m) through the without recourse debt factoring agreement.

Interest is charged at different rates depending on the financial institution ranging from EURIBOR + 1.25% to EURIBOR + 4.41%.

### 20. Deferred taxation

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

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets				
Depreciation in excess of capital allowances and other short term timing differences	<u>6,328</u>	<u>–</u>	<u>6,328</u>	<u>–</u>

The movement in deferred tax is as follows

	<i>Group</i>
	<i>£000</i>
At 1 January 2011 and 31 December 2011	<u>6,328</u>

## Notes to the financial statements (continued)

at 31 December 2011

### 20. Deferred taxation (continued)

#### Unrecognised deferred tax

Unrecognised deferred taxation is set out below

	<i>Group</i>	<i>Company</i>	<i>Restated</i>	<i>Company</i>
	<i>2011</i>	<i>2011</i>	<i>Group</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets				
Depreciation in excess of capital allowances	4,651	14	4,105	15
Other short-term timing differences	190		1,865	–
Tax losses carried forward	18,822		17,429	–
Total tax losses carried forward	23,663	14	23,399	15

In Budget 2011 on 23 March 2011, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 26%. This reduced rate applied from 1 April 2011 and was enacted using secondary legislation, called the Provisional Collection of Taxes Act. A further 1% rate reduction to 25% was also announced and it was intended that this would be effective from 1 April 2012. However, in his budget of 21 March 2012, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate. These included a reduction in the UK corporation tax rate from 25% to 24% effective from 1 April 2012 (substantively enacted as of 26 March 2012 and dealt with by Resolution under the Provisional Collection of Taxes Act). The UK government intends to further reduce the UK corporate income tax rate, to 22%, in annual increments of 1% per annum which will be enacted in successive Finance Bills. Consequently, the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements. However, for indicative purposes only, the company has shown the effect of the proposed reduction in the corporate income tax rate for each year on the gross deferred tax asset recognised as at 31 December 2011 as follows

31 December 2011 (substantively enacted tax rate = 25%)	£6,328,300
31 December 2012 (substantively enacted tax rate = 24%)	£6,075,168
31 December 2013 (substantively enacted tax rate = 23%)	£5,822,036
31 December 2014 (substantively enacted tax rate = 22%)	£5,568,904

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%.

## Notes to the financial statements (continued)

at 31 December 2011

### 21. Issued share capital

*Group and company*

	2011	2010
<i>Allotted, called up and fully paid</i>	<i>£000</i>	<i>£000</i>
999,861 A ordinary shares of £0 01 each	10	10
5,881,616 B ordinary shares of £0 01 each	59	59
1,759,881 C ordinary shares of £0 01 each	18	18
463,754 D ordinary shares of £0 01 each	4	4
3,084,006 E ordinary shares of £0 001 each	3	3
8,375,003 A preferred ordinary shares £1 00 each	8,375	8,375
101,683,737 B preferred ordinary shares £1 00 each	101,684	98,258
24,357,184 C preferred ordinary shares of £1 00 each	24,357	24,357
	<u>134,510</u>	<u>131,084</u>

On 27th April 2011 2e2 Holdings Ltd issued 3,426,124 B preferred ordinary shares to EMC Holdings and during the year 4,180 D ordinary shares were issued

#### **Class rights**

##### **Dividends**

Profits which are available for distribution are applied first, in payment of a rolled dividend to C preferred ordinary shareholders and second, amongst the equity shareholders *pari passu*, as if the A shares, B shares, C Shares, D shares and E shares constituted one class of shares. The holders of A preferred ordinary shares and B preferred ordinary shares shall have no right to participate in any profits available for distribution.

##### **Return of capital**

On winding up of the company or other return of capital the assets of the company remaining after payment of its debts and liabilities shall be applied in the following manner and order of priority

First, in paying to the A preferred ordinary shareholders the subscription price on each A preferred ordinary share, secondly, in paying to the B preferred ordinary shareholders and C preferred ordinary shareholders *pari passu*, as if B preferred ordinary shares and C preferred ordinary shares constituted one class of share, a sum equal to the subscription price on each B preferred ordinary share and C preferred ordinary share and any rolled dividends which have not been paid, thirdly, in paying to the B shareholders, C shareholders and E shareholders a sum equal to the subscription price on each share, fourthly, in paying to the A shareholders and D shareholders a sum equal to the subscription price on each A share and D share. Any balance should be distributed in proportion to the number of equity shares held as if all shares are of the same class.

##### **Voting**

The holders of the equity shares shall have one vote in respect of each fully paid equity share registered in his name.

## Notes to the financial statements (continued)

at 31 December 2011

### 21. Issued share capital (continued)

#### 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 if they remain unexercised after 10 years from the date of grant. The options also lapse following the employee leaving the Group. There were 366,245 share options outstanding at the year end (2010 44,250).

The fair values were calculated using a Black-Scholes-Merton model. The inputs into the model were as follows:

	2011	2010
Weighted average share price	£1.50	£1.00
Weighted average exercise price	£1.50	£1.00
Expected volatility	35 to 40%	35.5%
Risk-free rate	- 0.5%	4.25%
Expected dividend yield	nil	nil

Expected volatility was determined using as a base the share price movements recorded over the same period as the vesting period (from grant date to vesting date) and taking into account any specific factors impacting during the period. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

There were 366,245 outstanding at the year end (2010 44,250). There were 356,500 options granted in the year. During the year 38,930 options were forfeited whilst 85,000 options were forfeited after the year end as a result of employees leaving. For the share options outstanding as at 31 December 2011, the weighted average remaining contractual life is nine years (2010 six).

The Group recognised total charges of £26,568 related to equity-settled share-based payment transactions during the year (2010 £nil).



## Notes to the financial statements (continued)

at 31 December 2011

### 22. Reconciliation of shareholders' funds and movements on reserves

<i>Group</i>	<i>Share premium account £000</i>	<i>Other reserves £000</i>	<i>Restated Profit and loss account £000</i>
At 1 January 2011 as reported	9,010	–	(112,181)
Prior year adjustment (Note 1)	–	–	(2,903)
Restated at 1 January 2011	9,010	–	(115,084)
Retained loss for the year	–	–	(25,841)
D shares issued at a premium	4	–	–
FRS20 charge	–	27	–
Currency translation differences on foreign currency net investments	–	32	64
At 31 December 2011	9,014	59	(140,861)

<i>Company</i>	<i>Share premium account £000</i>	<i>Other reserves £000</i>	<i>Profit and loss account £000</i>
At 1 January 2011	9,010	–	(29,337)
D shares issued at a premium	4	–	–
Retained loss for the year	–	–	(11,492)
At 31 December 2011	9,014	–	(40,829)

### 23. Notes to the statement of cash flows

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

	<i>2011 £000</i>	<i>Restated 2010 £000</i>
Operating profit	1,936	5,112
Cash impact of fundamental restructuring	(3,409)	(4,875)
Adjustments to goodwill	(425)	–
Amortisation of goodwill	15,687	14,430
Depreciation	5,494	6,620
Depreciation of development costs	714	–
Decrease/(increase) in stock	249	(3,209)
Increase in debtors	(9,093)	(43,161)
Increase in creditors	4,110	44,002
Loss on sale of subsidiaries	987	–
Loss/(profit) on sale of fixed assets	(13)	36
Net cash inflow from operating activities	16,237	18,955

## Notes to the financial statements (continued)

at 31 December 2011

### 23. Notes to the statement of cash flows (continued)

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

	2011	Restated 2010
	£000	£000
Increase in cash in the year	6,951	18,106
Cash flow from financing	(6,421)	(77,776)
Change in net debt resulting from cash flows	530	(59,670)
Non-cash movements	(8,339)	124,541
Movement in the year	(7,809)	64,871
Net debt at the start of the year	(243,424)	(308,295)
Net debt at end of year	(251,233)	(243,424)

The 2010 comparatives have been restated as the non cash movements, in this note only, incorrectly excluded the issuance of £24.4m of preferred ordinary shares

(c) Analysis of changes in net debt

	At 1 January 2011 £000	Cashflow £000	Other non- cash movements £000	At 31 December 2011 £000
Cash at bank	18,649	6,951		25,600
Long term loans	(261,399)	(7,308)	(6,864)	(275,571)
Finance leases	(674)	887	(1,475)	(1,262)
	(243,424)	530	(8,339)	(251,233)

## Notes to the financial statements (continued)

at 31 December 2011

### 24. Disposals

During the year the Group disposed of the trade and assets of Xayce Ltd for a cash consideration of £2.4m

The results of the Group for the year include revenue of £248,000 and profit of £16,000 from the trading activities of Xayce up to its date of disposal on 2 February 2011

Net assets disposed of were as follows

	£000
Debtors	603
Net assets	603
Goodwill	1,754
Loss on disposal	(25)
	<u>2,332</u>
<i>Satisfied by</i>	
Cash	2,408
Fees	(76)
	<u>2,332</u>

During the year, the Group disposed of the trade and assets of two divisions of its Dutch subsidiary for a cash consideration of €0.3m. A third division remains and continues to trade within the Group.

The results of the Group for the year include revenues of £7,405,000 and a loss of £1,143,000 from the trading activities of these two divisions up to the date of disposal on 31 October 2011.

Net assets disposed of were as follows

	£000
Tangible Fixed Assets	196
Debtors	1,914
Creditors	(1,164)
Net assets	946
Loss on disposal	(962)
	<u>(16)</u>
<i>Satisfied by</i>	
Cash	295
Fees	(311)
	<u>(16)</u>

## Notes to the financial statements (continued)

at 31 December 2011

### 25. Interest rate swaps

The Group purchases interest rate swaps to manage the Group's exposure to floating interest rates. At the balance sheet date the interest rate swaps held by the Group were as follows,

Hedged amount at period end	£50.0m
Final maturity date	from 31 December 2011 to 31 December 2012
Fixed rate payable	1.18%
Floating rate receivable	GBP LIBOR BBA

### 26. Capital commitments

The group had no capital commitments at 31 December 2011 (2010 – £nil)

### 27. Contingent liabilities

There were no contingent liabilities at 31 December 2011 (2010 – £nil)

### 28. Post balance sheet events

There were no post balance sheet events