

**2e2** Creating  
Business  
Advantage®



**Creating Business Advantage**

## About 2e2

We are an IT managed services and solutions provider. We have some of the best people in the industry - and we make IT deliver real advantages for our clients' businesses.

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## Highlights of 2007

### Financial highlights

- + EBITDA\* increased by 51% to £20.1m from £13.3m
- + Operating profits increased by 32% to £10.3m from £7.8m
- + Organic growth continues to be strong

### Operational highlights

- + Acquisition of Compel Group plc
- + Establishment of UK and Netherlands managing directors and management teams
- + Strong growth in managed services

**+51%**

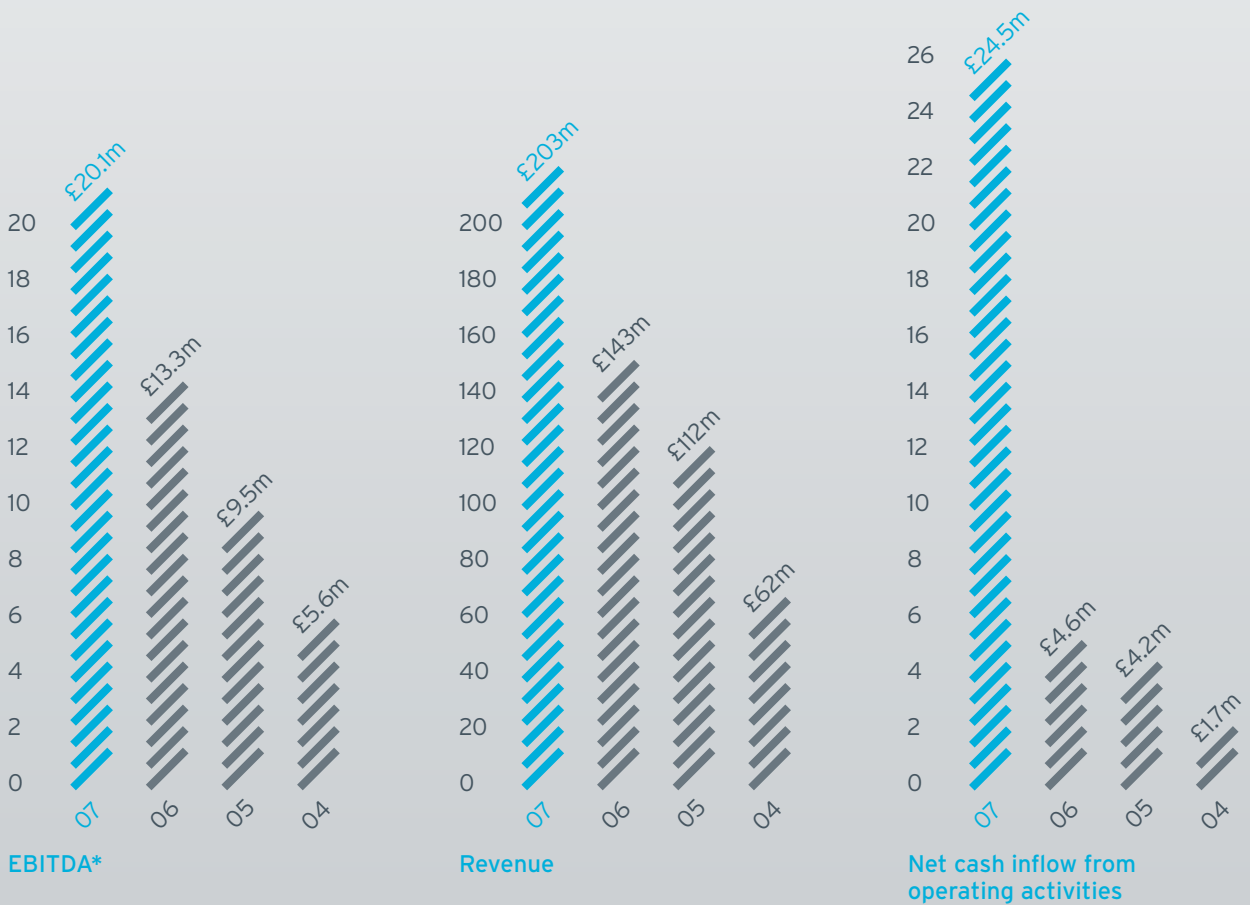
EBITDA

**+42%**

Revenue

**+432%**

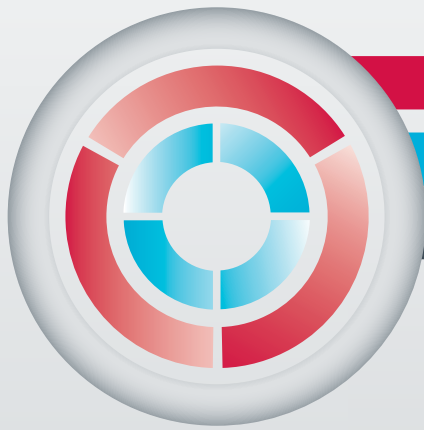
Net cash inflow from operating activities



\*Operating profits before depreciation, amortisation of goodwill and exceptional items of £9.8m (2006: £5.4m).

## What We Do

2e2 creates business advantage for its customers through innovative IT solutions and services.



SERVICES

SOLUTIONS

IT SOLUTIONS PARTNER

We help organisations reduce cost, increase revenues and serve their customers and stakeholders more effectively. We do this by transforming the IT infrastructure, service delivery processes and the operational model, allowing companies to focus on their business rather than on their technology.

Our solutions can be delivered as discrete projects operated in-house, or we can design a full managed service linked to performance targets that delivers predictable business results at a defined cost.

Whether our customers choose to operate their systems in-house, selectively out-task or engage a partner to run their IT service for them, 2e2 works to drive bottom line, tangible value from their IT investment.

2e2's vision is to be a company whose integrity, performance, quality and care for its customers and employees is second to none. Our experience, passion, innovation and agility differentiate us and ensure that we are the partner of choice.



### Managed Services

Our managed services help companies to control cost and focus more closely on what matters. Our suite of Managed Services ranges from hardware support services through to proactive 24/7 infrastructure and applications management.

### Professional Services

Our professional services teams deploy the brightest and best business and technical minds to focus upon issues and help shape the way companies deploy solutions to generate exceptional advantage within their business.

### Project Services

We have an enviable record of delivering on-time and on-budget technology rollouts, refreshes, moves and migrations. Proven methodologies and exceptional skills enable our project services organisation to deliver reliably, time after time.

### Unified Communications

We aim to significantly improve how people get hold of each other and work together to share, debate and decide. We are brilliant at building and managing networks, telephone, video, messaging and presence systems; where we excel is in helping our customers to position the solutions to their business, gain user acceptance and become effective quickly.

### Technology Solutions

How do we deliver an agile service to a business whilst keeping it all under control and within budget? We think the answer lies in our new approach to infrastructure, based on consolidation, centralisation and virtualisation. And it's not just servers we're talking about; we can help businesses virtualise their entire infrastructure. As one of the largest independent providers of mission-critical server, storage and client solutions, we are uniquely positioned.

### Business Applications

2e2 has one of the largest onshore teams of Oracle, PeopleSoft and Microsoft Dynamics specialists in the UK delivering financial, human capital, customer relationship management, supply chain and business intelligence solutions to organisations of all sizes. We can upgrade existing software, enable companies to migrate to a new platform, or implement a new end-to-end-system. Our proven expertise and unique solutions can move organisations on to where they need to be, cost effectively.

### Service & Asset Management

Businesses need to control their IT assets and to have confidence that service requests will be dealt with promptly and in a way that supports the business effectively. That's why managing IT assets and service delivery is so important. It enables businesses to deliver predictable services, conform to best practice and to maximise investment. 2e2 is amongst the leading ITIL and service and asset management solution providers in Europe.

## How We Do It

# It's all about the people. Our people create business advantage.

We are widely known and respected for mixing technological innovation with business sense, and for being exceptionally easy to work with. That's why an increasing number of organisations are choosing to work with us, time and time again.

From a simple infrastructure deployment to a complex global ERP solution, we have the skills and experience to get results. And if companies would rather focus on their business than their IT, we can help with our suite of managed services.

However a company chooses to work with 2e2, we will always go out of our way to be flexible, innovative and easy to do business with.



£240m

annual run-rate revenues

1,400

exceptional employees

95%

of services delivered by onshore employees

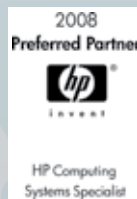
50

industry awards over five years



## 2e2 at a glance

- Annual run-rate revenues of £240m, privately owned and profitable
- In the top ten fastest growing IT services providers in the UK
- Regional offices across the UK, the Netherlands, the Channel Islands and the Isle of Man
- 1,400 exceptional employees with more than 1,000 customer-facing service delivery and IT professionals
- 95% of services delivered by 2e2's onshore full-time employees
- ITIL-compliant onshore managed service centres with triple ISO certification
- Highest accreditations with world-leading vendors such as Microsoft, Cisco, HP, Oracle, and EMC
- 50 industry awards won over the last five years
- First to deploy industry changing technologies such as Storage Area Networks, IP Telephony, Microsoft Office Communications Server, Storage Virtualisation, Oracle special edition and TelePresence
- Services partner of choice for many global systems integrators



## Chairman's Statement



Eric Priestley  
Chairman, 2e2 Holdings Ltd

In this, my third annual statement, I am particularly pleased to report a further year of excellent progress and growth across our entire business which is reflected in this report and accounts for 2007.

Our robust and customer-focused strategy has ensured that we achieve high levels of organic growth whilst also strongly enhancing the size and calibre of our customer base.

Against a background of increased competition and tough market conditions, our performance demonstrates the importance of our commitment to innovation and an expanded overall customer offering, as the basis for long-term presence and attractiveness as a quality provider of IT solutions.

This is perhaps best confirmed by the acquisition of Compel and its successful integration into the business. Compel not only provides much-needed capacity in the Enterprise customer arena but adds substantially to our overall scale and to the significant skills and expertise of our workforce.

It is by increasing our skills and broadening our offering that we ultimately build our business and this is especially reflected, this year, in the strong growth of managed services. Our capabilities have served us well in dramatically expanding the size and quality of our customer base as the leverage we are able to bring to customer efficiency becomes evident.

Our ability to deliver in ways which add real value to our customers is fundamental to our future and I am delighted that we continue to receive not just industry awards and plaudits but repeat mandates as an endorsement of our excellent service.

Our capacity continues to grow - whether through dedicated technical skills or geographically - making us increasingly attractive to new customers both for our expertise and for our ability to handle their business in a timely and efficient fashion.

Most importantly, whilst undergoing significant growth, we have maintained our high service levels and have retained our all-important differentiator of remaining flexible and innovative. We continue to employ some of the best people in the industry, many with exceptional business and technical skills which allow us to deliver outstanding business advantage for our customers.

That all comes with real support - whether from Duke Street Capital or Bank of Scotland - in the financing of our business and future growth. It equally comes from the very important ingredient in the business mix without which none of this would be possible, our people.

As we approach a turnover of £250m our headcount grows, but so too does our talent pool, and I want both to welcome all those who have joined us in the last year and to thank everyone for going 'the extra mile' for 2e2 - in so doing you also go that 'extra mile' for our customers and that's what really counts.

**Eric Priestley**  
Chairman

## Corporate Responsibility

“We take our responsibility obligations to be a good corporate citizen in all engagements with our customers, staff and the public seriously. As such, we strive to comply with best practice and guidance, to respect the environment and to support a number of worthy causes.”

Terry Burt - Chief Executive Officer

### Compliance

2e2 continues to provide transparent reporting of the business with this annual report forming part of that process. We are fully compliant with the recommendations of the Walker report covering disclosures and governance by private equity-funded organisations.

### Working sensibly and optimising energy use

We have deployed leading-edge technologies around the organisation to improve collaboration and effectiveness whilst reducing the need for business travel. In this respect wherever possible we utilise video conferencing, TelePresence and unified collaboration technologies - practicing what we preach to our customers.

We are shortly to commence the migration of a significant portion of our company vehicle fleet to more environmentally-friendly models with lower emissions and improved consumption.

Recycling is actively encouraged within the business with programmes in place for paper waste and toner cartridges.

We are continuing to invest in server virtualisation solutions which together with consolidation programmes, significantly reduce our energy requirements.

We are also pleased to be supporting two charities from this year. The Child Brain Injury Trust and the Research Institute for Movement Disorders are two laudable organisations and we are delighted to be able to help them bring an improved quality of life to the children and adults within their programmes.



### Child Brain Injury Trust

Child Brain Injury Trust is a UK wide charity offering support, information and training to anyone affected by childhood acquired brain injury. More than 20,000 children will acquire a brain injury each year in the UK, resulting from accidents, illnesses such as meningitis or encephalitis, poisoning, strokes or tumours.

### Research Institute for Movement Disorders

The RIMD researches movement disorders. The group is currently based in the Oxford Brookes University's (OBU) Biomechanics and Human Performance Laboratories. They are currently providing rehabilitative care to patients suffering; Motor Neuron Disease, Cerebral Palsy, Stroke, Multiple Sclerosis, Paraplegics, Tetraplegics, Quadraplegics, Huntingtons Chorea, Trauma and Amputations.

## Chief Executive's Review



Terry Burt  
Chief Executive Officer

I am delighted to present our results for the year ended 31 December 2007.

2007 was another strong year for 2e2 with excellent progress being made across the business. Our run-rate business was once again augmented by strong managed services growth and by some pleasing major project wins, as 2e2 was recognised time and time again as an innovative and high-quality solutions and services partner. Compel, our latest acquisition, performed well and we are delighted to welcome their customers and staff into the organisation.

I would like to thank our managers and staff for their continued hard work and support over the past year.

### Results

The Group achieved revenues of £203m for the year (2006: £143m): an increase of 51%. This strong growth results in part from our acquisition of Compel, which joined the organisation in late March. However, our organic growth also remained strong with revenue growth on a like-for-like basis being an average of over 10% p.a. during the past four years. In a challenging market, we are pleased with this performance.

Compel brought some strong skills and specialisations to 2e2. Their Oracle and PeopleSoft practice formed the core of our Business Applications Solutions offer which we have now augmented with a Microsoft Dynamics practice. Compel's Technology Solutions business has enabled 2e2 to expand from the mid-market into the mission-critical enterprise market, increasing significantly the depth of 2e2's offers.

We continue to benefit from good visibility of contracted, recurring revenues which underpin our revenues and are able to identify around 50% of the Group's annual revenues going forward.

EBITDA before exceptional items increased to £20.1m (2006: £13.3m). Operating profit increased to £10.3m (2006: £7.8m). Operating margins before amortisation of goodwill and exceptional items increased to 9.2% (2006: 8.4%) reflecting the ongoing benefits of the integrated business.

Cash balances remained exceptionally strong at the end of the year.

### Operational Review

There was one acquisition in the year, Compel Group plc, which was acquired in March. This business operated in complementary markets to 2e2. The higher-end mission-critical storage and server business forms a natural extension of 2e2's data management practice and allows us to provide a broader range of services to customers spanning the mid-market to enterprise and encompassing data centre and mission-critical server solutions. Compel's Oracle and PeopleSoft consultancy practice brought new consultancy skills to 2e2 at a time when we were seeking to enter this space, in order to support the growing demand for managed applications services as part of our managed services offer. We remain pleased with the operation of this business and believe it will form a key part of the offer going forward.

All of our businesses traded well during the year with a strong performance all round. It was particularly pleasing to see the fruits of our cross-selling campaign continuing to come through with some strong wins across the business including those between the newly-acquired Compel business and 2e2 Channel Islands.

We experienced particularly strong growth within our managed services business, implementing several broad-based solution and support projects for customers. Our Managed Services Centre and Network Operations Centre which we opened last year have proven to be an excellent assets, providing consistently high service levels from a scalable and professionally-managed centre.

United Bristol Healthcare   
NHS Trust

# Trustworthy

“2e2 were the natural choice for the Trust to enable them to deliver a truly unified communication architecture”

Dave Oatway - IM&T Communications Manager

United Bristol Healthcare NHS Trust (UBHT) is one of the country's leading National Health Service (NHS) Trusts. Due to the many changes that were taking place within the NHS at a national level, UBHT decided to undertake a review of its infrastructure.

2e2 were awarded the contract in early 2006. Following a review of additional business benefits that could be gained from the infrastructure upgrade, it was felt by both parties that a fully unified solution would be the best way forward. 2e2's market leading experience in the Unified Communications space helped the Trust move forward with the following projects:

- Wireless deployment throughout the entire Trust
- Introduction of RFID tagging
- Microsoft's OCS application
- Deployment of IP Telephony
- Integration of Cisco's CUAE (Cisco Unified Application Environment) application.

The infrastructure will enable the Trust to deliver measurable cost savings whilst delivering improved patient care and helping deliver the Trust's longer term IT strategy.

## Chief Executive's Review - continued

The facility is accredited to the highest standards (ISO 9001, ISO 20000-1 and ISO 27001) which provide peace of mind and security for our customers. Indeed, our processes and business continuity procedures were tested last summer when during exceptionally heavy rains our Network Operations Centre was flooded. Our business continuity plan was enacted and, with less than one minute of downtime, we resumed our service delivery capability from our fall-back location.

2e2's vendor relationships continued to strengthen during 2007. We were awarded Cisco's Certificate of Customer Service Excellence, having consistently exceeded the respective metrics in the previous twelve-month period. This was a great testament to the dedication of the teams that deliver our services and very much in keeping with our all-pervasive customer service ethic. In September, 2e2 were awarded the Cisco Master Unified Communications Specialisation, recognising our outstanding skills in the design, delivery and support of IP Telephony solutions. 2e2 remains the only Gold partner to hold this accreditation in the UK and is one of only three UK organisations and 23 worldwide (from a reseller population of 8,000) that hold this coveted accreditation.

During the year, our Dutch businesses adopted the new 2e2 brand and were reorganised into one integrated business. This was supported by the appointment of new Managing Directors for the UK and Netherlands businesses. Neil Allpress joined as UK Managing Director from Fujitsu Siemens Computers where he was

Vice President of the IT services division. Marc Muller joined as Netherlands Managing Director from ATOS Origin where he was Vice President for Northern Europe. Both Neil and Marc have settled in well and are advanced in their missions to ensure that we continue to generate growth from these highly-skilled organisations.

We will complete the alignment of Compel within the rest of 2e2 during 2008, ensuring that we make it as clear and as easy as possible for our customers to access our range of solutions and services and to do business with us. This involves a number of measures and projects, together with an investment of over £1m in systems and supporting processes. Our revised, clearer website went live in early 2008 and this is being supplemented by a heightened marketing programme to raise awareness of 2e2 amongst our target customers. We are implementing a consistent set of processes and an end-to-end ERP platform across the business, starting in the UK this year. These measures will support the alignment of the Compel organisation with 2e2 and will see the business go to market as 2e2 to all of its customers.

Our offshore businesses in the Channel Islands and Isle of Man have continued to perform well and we are pleased to report that we are currently investing in an expanded hosting capability on the islands, which will allow us to address the continuing demand for co-location and business continuity services.

Once again, we were pleased to receive a number of awards and league table placements during the year. In May, 2e2 was awarded the Sunday Times Fast Track 100 Best Use of Technology award in recognition of the innovative solutions that our Dutch business deployed for Deloitte. In October, 2e2's Dutch organisation also won KPN's Channel Award for Landline and Mobile Integration. In November, we were placed in the Europe's 500 Champions of Growth table as the 122nd (41st in the UK) fastest growing organisation in Europe. Also in November, 2e2 was awarded Gold status by the UK's Institute of IT Training in recognition of the consistently high quality of education that the business has been providing. Shortly after the year end, 2e2 received its 48th award in five years when we were placed at 24 in the Sunday Times Buyout Track 100 table. And in April this year we were awarded the 2007 UK & Ireland Solution Partner of the Year award from Cisco Systems for the 'BA Inform Project'.

There have been some good customer wins over the past year, including potentially one of the largest orders for the business to date from BAA for a major IP Telephony implementation.

Our mission remains to continue to develop the group into a provider of a broader range of services and solutions that can be accessed as a unified customer experience. Over the coming months we will be increasing our external messaging to raise awareness of the business and the broad range of specialisations that we offer.

**Terry Burt**  
Chief Executive Officer



Isle of Man  
Government

# Experienced

“A key focus for Information Systems Division (ISD) is on high quality, measurable customer service. We view the relationship with 2e2 as strategic, providing a virtual extension of ISD and directly interfacing with many of our end user customers.”

Allan W Paterson, Director, Information Systems Division, Treasury

2e2's contract with the Isle of Man Government covers procurement, product installation, support and maintenance. Main highlights include:

- Provision and development of Government desktop services and support
- Secondary schools support, including peripheral equipment and Cisco network infrastructures
- Microsoft application training
- Government WAN network cabling
- Project work covering GP surgery network upgrades and new Prison IT equipment.

2e2 provide service delivery under single management, enabling integration with non-contractual ordering activities, support and maintenance work, spares and asset management.

2e2 provide the outsourced support that enables the production services team to focus more on the business while 2e2 focus on the technology. Other benefits include controlled and reduced costs, increased productivity and improved business continuity.



# Board of Directors



**Eric Priestley**  
Chairman, 2e2 Holdings Ltd

Eric returned to Europe after 8 years in the US, where he was Chief Operating Officer of Jefferson Smurfit Corp, one of the world's largest producer of paper-based packaging products. Prior to that he was President & Chief Executive of Rexam Inc. He has also been a main Board Director of two FTSE 100 companies.

His career has spanned a range of manufacturing and distribution businesses as well as extensive international experience. Currently, he is Chairman of 2e2, a Non-executive Director of Deloro Stellite and a Non-executive Director of The Southwire. Eric sits on the board of Duke Street Capital Holdings in Guernsey and is Chairman of their Operating Partners.



**Terry Burt**  
Chief Executive Officer

Terry is a qualified accountant and a founder of 2e2. Terry has over 25 years' experience in the IT industry, including running his own software house. As COO of 4Front, Terry engineered the buy-and-build strategy and grew the business to \$250m of revenues.

He personally handled 23 acquisitions and disposals and drove organic growth of over 20% per annum. He managed the eventual sale of the business to NCR. At NCR he was VP of customer services for Europe, Middle East & Africa (EMEA).



**Mark McVeigh**  
Chief Operating Officer

A 2e2 founder, Mark has a well-established background in sales and business management. One of the earlyday senior managers of 4Front, Mark was responsible for the turnaround of several 4Front acquisitions into sustainable profit-generating businesses and has been personally responsible for the Norsk Data turnaround at 2e2. At NCR, Mark was VP of sales and marketing for customer services across EMEA.



**Nick Grossman**  
Business Development Director

Nick has a background in IT customer services having worked in the IT industry for 25 years. He has structured, implemented and run many customer service organisations. Nick occupied senior positions in several of the 4Front turnaround and transition projects.

At NCR he was responsible for the integration of 4Front and for a major reorganisation and social plan in France. He was also responsible for M&A for customer services across EMEA.



**Simon Burt**  
Group Finance Director &  
Company Secretary

Simon has 10 years' experience in the senior finance role within technology and service companies, both listed and private-equity backed. This includes four years as Finance Director of AIM listed Epic Group plc.

Simon brings a high standard of control and professionalism to the finance function. Simon qualified as a Chartered Accountant with KPMG.



**John Harper**  
Non-executive Director,  
2e2 Holdings Ltd

John joined Duke Street Capital in 2000 from HSBC Private Equity for whom he worked in London and Dusseldorf and where he worked on a broad spectrum of mid-market private equity transactions.

John holds a Modern Languages degree from Durham University. He speaks English and German.



**Kate Mullord**  
Non-executive Director,  
2e2 Holdings Ltd

Kate joined Duke Street in 2006 from Goldman Sachs where she spent three years as an Associate in Investment Banking in London. Prior to that, Kate worked for UBS Investment Bank based in Johannesburg, South Africa. Kate is a graduate of the University of Cape Town and holds a Bachelor of Business Science (Hons) with majors in finance, economics and accounting.



**John Loveland**  
Non-executive Director,  
2e2 Holdings Ltd

John's career spans 40 years in the IT industry. He joined ICL in 1964 and held various technical and managerial positions. In 1982 he joined Wang Computers (UK) Limited where he was Director of Customer Services, UK. In 1988 he joined Nixdorf Computers Limited which was acquired by Siemens AG, and subsequently held various senior positions within Siemens.

In the last ten years John has focused on international operations. His most recent appointments were President, Siemens Business Services, North America and President, Siemens Business Services, APAC, Latin America and Africa. John retired from Siemens on 31 March 2004.

## Accounts

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## Directors' Report

The directors present their report and financial statements for the year ended 31 December 2007.

### Principal activity

The principal activity of the group is the delivery of outsourced computer services, focusing on the unified communications, technology solutions, managed services and business applications solutions. These services are delivered to customers in the UK, the Channel Islands, the Isle of Man and the Netherlands. The group continues to expand its activities through a combination of organic growth and acquisitions.

### Review of the business

There was an operating profit for the year of £10.3m (2006: £7.8m).

During the year, the group completed the acquisition of Compel Group plc and subsidiary companies. Compel is a specialist in business-critical technology solutions and business application solutions.

The retained loss for the year after taxation amounted to £0.7m (2006: profit £0.7m). Included within operating profits, certain exceptional one-off costs 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 £4.2m (2006: £1.6m) and relate to the integration and consequent restructuring of the UK and Netherlands trading companies into a single operating company, and the restructuring of the Compel Group following its acquisition.

The directors are delighted with the performance of the group during the year. They do not recommend the payment of a dividend (2006: £nil).

### Directors and their interests

The directors who served during the year ended 31 December 2007 were:

T Burt (Chief Executive)  
M McVeigh  
N Grossman  
S Burt

None of the directors had any interest in the share capital of the company at the end of the year.

Their interests in the share capital and loan stock of 2e2 Holdings Limited, the ultimate holding company, is as follows:

	Number of A ordinary shares	Number of C ordinary shares	Number of preference shares	Amount of loan stock
T Burt	133,582	534,694	2,351,079	2,351,079
M McVeigh	106,671	430,932	1,894,832	1,894,832
N Grossman	66,840	58,855	258,788	258,788
S Burt	93,576	58,855	258,788	258,788

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

### Directors' qualifying third party indemnity provision

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

## Directors' Report - continued

**Directors' statement as to disclosure of information to auditors**

The directors who were members of the board at the time of approving the directors' report are listed on pages 12 and 13. Having made enquiries of fellow directors and of the group's auditors, each of these directors confirm that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the group's auditors are not aware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the group's auditors are aware of that information.

**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.

**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 2007, trade creditors of the group were equivalent to 49 days purchases (2006: 47 days).

**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. This risk is reduced as the group's banking facilities are available on a committed basis.

**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.

**Corporate governance**

The directors recognise the importance of adopting good corporate governance practices in the best interests of shareholders as a whole. The principles of good corporate governance, set out in the Combined Code, have been followed as far as possible given the size of the company.

**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.

**Future developments**

In the future the group will continue to investigate suitable acquisition opportunities where it feels it these will strengthen its offering 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.

**Auditors**

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

By order of the Board

S Burt

Director

16 May 2008

## Statement of Directors' Responsibilities in Respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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 group and the company and of the profit or loss of the group for that period. In preparing those 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 disclose with reasonable accuracy at any time the financial position of the group and the company 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent Auditors' Report to the Members of 2e2 Group Limited

We have audited the group and parent company financial statements (the 'financial statements') of 2e2 Group Limited for the year ended 31 December 2007 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 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and 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).

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 group's and 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.

### 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 group's and the parent company's affairs as at 31 December 2007 and of the group's 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.

Ernst & Young LLP

Registered Auditor  
Reading

16 May 2008

## Group Profit and Loss Account

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Turnover</b>			
Continuing operations	2	130,567	143,114
Acquisitions		72,635	-
		<b>203,202</b>	143,114
Cost of sales		<b>(128,919)</b>	(84,681)
<b>Gross profit</b>		<b>74,283</b>	58,433
Administration expenses		<b>(54,233)</b>	(45,149)
<b>Operating profit before depreciation, amortisation of goodwill and exceptional items*</b>		<b>20,050</b>	13,284
Depreciation (non-rental assets)		<b>(1,291)</b>	(1,324)
Amortisation of goodwill	3	<b>(4,244)</b>	(2,563)
Exceptional administration expenses	3	<b>(4,223)</b>	(1,553)
<b>Operating profit</b>			
Continuing operations		<b>6,785</b>	7,844
Acquisitions		<b>3,507</b>	-
		<b>10,292</b>	7,844
Costs of fundamental restructuring	3	-	(1,515)
Net interest and other similar charges	4	<b>(9,979)</b>	(4,455)
<b>Profit on ordinary activities before taxation</b>	3	<b>313</b>	1,874
Tax on profit on ordinary activities	6	<b>(965)</b>	(1,131)
<b>(Loss)/profit for the year attributable to members of the parent company</b>	20	<b>(652)</b>	743

\*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 2007

	2007 £'000	2006 £'000
(Loss)/profit for the year	<b>(652)</b>	743
Currency translation differences on foreign currency net investments	<b>(808)</b>	155
<b>Total recognised gains and losses related to the year</b>	<b>(1,460)</b>	898

# Group Balance Sheet

As at 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Intangible assets - goodwill	9	93,448	51,540
- negative goodwill		-	(252)
Tangible assets	10	11,710	2,247
		<b>105,158</b>	53,535
<b>Current assets</b>			
Stocks	12	8,076	5,450
Debtors: amounts due within one year	13	51,811	37,432
Debtors: amounts due after more than one year	13	4,385	3,810
Cash at bank and in hand		11,168	3,749
		<b>75,440</b>	50,441
<b>Creditors: amounts falling due within one year</b>	14	<b>(39,111)</b>	(22,599)
<b>Net current assets</b>		<b>36,329</b>	27,842
<b>Total assets less current liabilities</b>		<b>141,487</b>	81,377
<b>Financed by:</b>			
<b>Creditors: amounts falling due after more than one year</b>	15	<b>122,795</b>	65,554
Deferred income	16	15,441	11,282
<b>Capital and Reserves</b>			
Called up share capital	19	105	105
Share premium account	20	265	265
Other reserves	20	458	292
Profit and loss account	20	2,423	3,879
<b>Shareholders' funds</b>		<b>3,251</b>	4,541
		<b>141,487</b>	81,377

Approved by the Board

T Burt  
Director

16 May 2008

# Company Balance Sheet

As at 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Tangible assets	10	1	43
Investments	11	222	222
		<b>223</b>	265
<b>Current assets</b>			
Debtors	13	3,872	66,788
Cash at bank		448	767
		<b>4,320</b>	67,555
<b>Creditors: amounts falling due within one year</b>	14	<b>(353)</b>	(269)
<b>Net current assets</b>		<b>3,967</b>	67,286
<b>Total assets less current liabilities</b>		<b>4,190</b>	67,551
<b>Financed by:</b>			
<b>Creditors: amounts falling due after more than one year</b>	15	-	65,518
<b>Capital and Reserves</b>			
Called up share capital	19	105	105
Share premium account	20	265	265
Other reserves	20	51	(165)
Profit and loss account	20	3,769	1,828
<b>Shareholders' funds</b>		<b>4,190</b>	2,033
		<b>4,190</b>	67,551

Approved by the Board

T Burt  
Director

16 May 2008

# Group Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Net cash inflow from operating activities</b>	21	<b>24,529</b>	4,552
<b>Costs of fundamental restructuring</b>		-	(1,515)
<b>Returns on investments and servicing of finance</b>			
Interest received		303	18
Interest paid		(223)	(5,135)
Finance lease interest paid		(4)	(19)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>76</b>	(5,136)
Taxation		(427)	(1,811)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(7,810)	(2,096)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(7,810)</b>	(2,096)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(55,201)	(1,280)
Net cash from purchase of subsidiary undertakings		1,407	1,000
Payments in respect of prior year acquisitions		(1,276)	(4,043)
<b>Net cash outflow from acquisitions and disposals</b>		<b>(55,070)</b>	(4,323)
<b>Financing</b>			
Receipts/(repayments) of borrowings		(87)	(55,850)
Receipts from loans from parent company		46,208	65,518
<b>Net cash inflow from financing</b>		<b>46,121</b>	9,668
<b>Increase/(decrease) in cash</b>	23	<b>7,419</b>	(661)

# Notes to the Financial Statements

For the year ended 31 December 2007

## 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 11), drawn up to 31 December 2007.

### 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 230 of the Companies Act 1985, 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.

### 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 tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

#### 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.

#### Derivative instruments

The group uses interest rate swaps to adjust interest rate exposures. The group considers its derivative instruments qualify for hedge accounting when the following criteria are met:

- 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 gain / loss is spread over the remaining maturity of the original instrument.

## Notes to the Financial Statements - continued

**2. TURNOVER**

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

	<b>2007</b>	2006
	<b>£'000</b>	£'000
United Kingdom (including the Channel Islands and the Isle of Man)	<b>179,062</b>	119,278
Europe	<b>24,140</b>	23,836
	<b>203,202</b>	143,114

Included within turnover is £3.2m (2006: £nil) relating to barter transactions related to the company's equipment rentals division.

**3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

The profit on ordinary activities before taxation is stated after charging:

	<b>2007</b>	2006
	<b>£'000</b>	£'000
Auditors' remuneration		
Audit services		
- UK	<b>315</b>	135
- Overseas	<b>45</b>	40
Non-audit services	<b>64</b>	50
Depreciation and amortisation		
Goodwill (see Note 9)	<b>4,244</b>	2,563
Tangible fixed assets, owned	<b>4,947</b>	1,213
Tangible fixed assets, held under finance leases and hire purchase contracts	<b>42</b>	111
Other operating lease rentals	<b>5,240</b>	2,205
Exceptional administration expenses	<b>-</b>	1,553
Reorganisation, restructuring and integration costs of the UK group	<b>4,223</b>	1,515

The exceptional administration expenses significantly relate to aborted transaction costs and integration and restructuring costs.

The reorganisation, restructuring and integration costs incurred in 2007 relate to the following activities:

	<b>2007</b>
	<b>£'000</b>
Integration and restructuring of the UK group	<b>1,369</b>
Integration and restructuring of the Netherlands group	<b>856</b>
Restructuring costs within Compel following acquisition by the group	<b>1,998</b>
	<b>4,223</b>

The amounts shown within the profit and loss account for the year include the following in respect of acquisitions.

	<b>2007</b>
	<b>£'000</b>
Cost of sales	<b>52,597</b>
Administration expenses	<b>13,577</b>
Depreciation	<b>337</b>
	<b>13,914</b>

**4. NET INTEREST AND OTHER SIMILAR CHARGES**

	2007 £'000	2006 £'000
Interest payable from other group companies	10,054	3,104
Finance charges in respect of finance leases	7	19
Other interest payable and similar charges	220	1,350
	<b>10,281</b>	4,473
Other interest receivable and similar income	<b>(302)</b>	(18)
	<b>9,979</b>	4,455

**5. STAFF COSTS**

Staff costs during the year were as follows:

	2007 £'000	2006 £'000
Wages and salaries	54,145	41,908
Social security costs	6,019	4,851
Other pension costs	1,103	750
	<b>61,267</b>	47,509

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

	2007 No.	2006 No.
Management and administration	158	165
Sales and marketing	247	155
Operations	939	920
	<b>1,344</b>	1,240

For the current year directors' emoluments have been borne by fellow group company 2e2 Holdings Limited. 2e2 Holdings Limited charges 2e2 Group Limited a management fee which incorporates directors' emoluments. Further details are disclosed in the accounts of 2e2 Holdings Limited. Remuneration in respect of directors during the previous year was as follows:

	2007 £'000	2006 £'000
Fees	-	46
Emoluments	-	396
Pension contributions to money purchase pension schemes	-	34
	-	476
Payments to third parties for directors' services	-	39
	-	515

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

	2007 £'000	2006 £'000
Emoluments	-	125
Pension contributions to money purchase pension schemes	-	8

During the year 4 directors participated in money purchase pension schemes (2006: 3).

## Notes to the Financial Statements - continued

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

## a) The tax charge/(credit) represents:

	2007 £'000	2006 £'000
UK corporation tax	-	-
Overseas taxation	311	845
Adjustments in respect of prior years	(247)	7
Total current tax	64	852
Origination and reversal of timing differences	592	279
Effect in changes in tax rates on liability	309	-
Total deferred tax	901	279
Tax on profit on ordinary activities	<b>965</b>	<b>1,131</b>

## b) Factors affecting tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30%. The differences are explained as follows:

	2007 £'000	2006 £'000
(Loss)/profit on ordinary activities before tax	313	1,874
Profit on tax on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	94	562
Effects of:		
Expenses not deductible for tax purposes	1,172	931
Capital allowances in excess of depreciation	(2,681)	(249)
Increase/utilisation of tax losses	2,140	8
Differences in tax rates	(414)	(404)
Adjustments to tax charge in respect of previous years	(247)	7
Other short-term timing differences	-	(3)
Current tax charge for the year	<b>64</b>	<b>852</b>

From financial year 2008, the UK corporation tax rate will reduce from 30% to 28%. This rate change will both affect the amount of future cash tax payments to be made by the company and will also reduce the size of the company's deferred tax asset. Changes to the UK capital allowance regime have also been proposed; the most significant of these changes for the company is the reduction in the rate of capital allowances applicable to plant and machinery expenditure from 25% to 20% per annum on a reducing balance basis from 1 April 2008. The effect on the company of these proposed changes to the UK tax system will be fully reflected in the company's financial statements for the year ending 31 December 2008.

**7. PROFIT FOR THE FINANCIAL PERIOD**

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £1.9m (2006: £1.1m).

## 8. DIVIDENDS

No dividends were paid or declared during the year (2006: £nil).

## 9. INTANGIBLE FIXED ASSETS

	<b>Group 2007 £'000</b>	<b>Company 2007 £'000</b>	Group 2006 £'000	Company 2006 £'000
Goodwill	<b>93,448</b>	-	51,288	-
	Purchased goodwill £'000	Goodwill £'000	Negative goodwill £'000	<b>Total £'000</b>
<b>Cost:</b>				
At 1 January 2007	868	57,626	(2,772)	<b>55,722</b>
Additions	-	46,133	-	<b>46,133</b>
Adjustments to deferred consideration	-	271	-	<b>271</b>
<b>At 31 December 2007</b>	<b>868</b>	<b>104,030</b>	<b>(2,772)</b>	<b>102,125</b>
<b>Amortisation:</b>				
At 1 January 2007	(334)	(6,621)	2,521	<b>(4,434)</b>
Provided in the year	(161)	(4,334)	251	<b>(4,244)</b>
<b>At 31 December 2007</b>	<b>(495)</b>	<b>(10,955)</b>	<b>2,772</b>	<b>(8,678)</b>
<b>Net book value:</b>				
<b>At 31 December 2007</b>	<b>373</b>	<b>93,075</b>	-	<b>93,448</b>
At 31 December 2006	534	51,005	(251)	51,288

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

## 10. TANGIBLE FIXED ASSETS

Group	Freehold Property £'000	Rental equipment £'000	Leasehold improvements £'000	Motor vehicles £'000	Computer equipment £'000	<b>Total £'000</b>
<b>Cost:</b>						
At 1 January 2007	-	-	237	351	4,211	<b>4,799</b>
Additions	-	12,582	341	29	1,148	<b>14,100</b>
Acquisitions	980	5,546	119	-	78	<b>6,723</b>
Foreign exchange movements	-	-	9	-	107	<b>116</b>
Disposals	-	(8,668)	(48)	(148)	(438)	<b>(13,442)</b>
<b>At 31 December 2007</b>	<b>980</b>	<b>9,460</b>	<b>658</b>	<b>232</b>	<b>5,106</b>	<b>12,296</b>
<b>Depreciation:</b>						
At 1 January 2007	-	-	64	92	2,396	<b>2,552</b>
Provided in the year	20	3,839	290	77	763	<b>4,989</b>
Foreign exchange movements	-	-	6	-	83	<b>89</b>
Eliminated on disposal	-	(2,377)	(48)	(112)	(367)	<b>(2,904)</b>
<b>At 31 December 2007</b>	<b>20</b>	<b>(1,462)</b>	<b>312</b>	<b>57</b>	<b>2,875</b>	<b>(4,726)</b>
<b>Net book value:</b>						
<b>At 31 December 2007</b>	<b>960</b>	<b>7,998</b>	<b>346</b>	<b>175</b>	<b>2,875</b>	<b>11,710</b>
At 31 December 2006	-	-	173	259	1,815	2,247

## Notes to the Financial Statements - continued

**10. TANGIBLE FIXED ASSETS - CONTINUED**

The net book value of fixed assets includes £0.1m (2006: £0.2m) for computer and other equipment in respect of assets held under finance leases and hire purchase contracts.

Company	Computer equipment £'000	Total £'000
<b>Cost:</b>		
At 1 January 2007	57	57
Additions	5	5
Disposals	(55)	(55)
<b>At 31 December 2007</b>	<b>7</b>	<b>7</b>
<b>Depreciation:</b>		
At 1 January 2007	14	14
Provided in the year	10	10
Eliminated on disposals	(18)	(18)
<b>At 31 December 2007</b>	<b>6</b>	<b>6</b>
<b>Net book value:</b>		
<b>At 31 December 2007</b>	<b>1</b>	<b>1</b>
At 31 December 2006	43	43

**11. 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 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 UK Limited
2e2 Services Limited	2e2 Solutions Limited
Motifact Service Management UK Limited	2e2 Offshore Limited
2e2 Data Management Limited	Hamilton Rentals Limited
Compel Group Limited	Compelsolve Limited

**Incorporated in the Netherlands and trading:**

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

**Incorporated in Belgium and trading:**

2e2 Motifact Service Management België N.V.

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

**12. STOCKS**

	<b>Group 2007 £'000</b>	<b>Company 2007 £'000</b>	Group 2006 £'000	Company 2006 £'000
Spare parts	<b>3,528</b>	-	4,682	-
Goods for resale	<b>3,740</b>	-	319	-
Short-term work in progress	<b>808</b>	-	449	-
	<b>8,076</b>	-	5,450	-

**13. DEBTORS**

	<b>Group 2007 £'000</b>	<b>Company 2007 £'000</b>	Group 2006 £'000	Company 2006 £'000
Trade debtors	<b>40,406</b>	-	26,787	-
Amounts owed by group undertakings	-	<b>3,682</b>	1,599	66,788
Other debtors	-	<b>190</b>	87	-
Prepayments and accrued income	<b>11,405</b>	-	8,326	-
Deferred tax asset (see Note 18)	<b>4,385</b>	-	4,443	-
	<b>56,196</b>	<b>3,872</b>	41,242	66,788

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

	<b>Group 2007 £'000</b>	<b>Company 2007 £'000</b>	Group 2006 £'000	Company 2006 £'000
Deferred tax asset	<b>4,385</b>	-	3,810	-

**14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>Group 2007 £'000</b>	<b>Company 2007 £'000</b>	Group 2006 £'000	Company 2006 £'000
Trade creditors	<b>26,307</b>	<b>351</b>	11,203	262
Amounts owed to group undertakings	-	-	-	-
Tax and social security	<b>4,712</b>	-	4,025	-
Other creditors	-	-	695	-
Accruals	<b>8,067</b>	<b>2</b>	5,167	7
Deferred consideration	-	-	1,433	-
Amounts due under finance leases	<b>25</b>	-	76	-
	<b>39,111</b>	<b>353</b>	22,599	269

## Notes to the Financial Statements - continued

**15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Amounts owed to group undertakings	122,795	-	65,518	65,518
Amounts due under hire purchase contracts	-	-	36	-
	<b>122,795</b>	<b>-</b>	<b>65,554</b>	<b>65,518</b>

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

**16. DEFERRED INCOME**

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Deferred income - within one year	15,441	-	11,282	-

**17. BORROWINGS**

Borrowings are repayable as follows:

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Within one year:				
Finance leases	25	-	76	-
After one and within two years:				
Finance leases	-	-	36	-
	<b>25</b>	<b>-</b>	<b>112</b>	<b>-</b>

On 22 September 2006, the company and its subsidiaries entered into a cross guarantee in conjunction with its parent company in the amount of £135m, in favour of the group's bankers in respect of the borrowings of the group.

**18. DEFERRED TAXATION**

Deferred taxation provided for in the financial statements is set out below (see Note 13):

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
<b>Assets</b>				
Tax losses carried forward	4,385	-	4,443	-

The movement in the provisions for deferred tax is as follows:

	Group and company £'000
As at 1 January 2007	4,443
Acquisitions	842
Utilised during the year	(730)
Adjustments in respect of prior years	(170)
<b>As at 31 December 2007</b>	<b>4,385</b>

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

#### Unprovided deferred tax

Unprovided deferred taxation is set out below:

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
<b>Assets</b>				
Depreciation in excess of capital allowances	11,698	12	4,433	4
Other short-term timing differences	1,063	2	559	2
Tax losses carried forward	7,287	57	14,992	327
<b>Total tax losses carried forward</b>	<b>20,588</b>	<b>71</b>	19,984	333

#### 19. SHARE CAPITAL

Group and Company	2007 £'000	2006 £'000
<b>Authorised:</b>		
30,081,367 A ordinary shares of £0.04 each	1,203	1,203
32,666,583 B ordinary shares of £0.04 each	1,307	1,307
	<b>2,510</b>	2,510
<b>Allotted, called up and fully paid:</b>		
1,275,000 A ordinary shares of £0.04 each	51	51
1,362,250 B ordinary shares of £0.04 each	54	54
	<b>105</b>	105

#### Share option reserve

The group's parent company, 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 48,675 share options outstanding at the year end (2006 - nil). The weighted average share price at the date of exercise for share options issued during the year was 100p.

## Notes to the Financial Statements - continued

**19. SHARE CAPITAL - CONTINUED**

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

	2007	2006
Weighted average share price	<b>1.00p</b>	3.79p
Weighted average exercise price	<b>1.00p</b>	3.79p
Expected volatility	<b>35.53%</b>	26.02%
Risk-free rate	<b>4.25%</b>	4.25 to 4.75%
Expected dividend yield	-	-

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.

During the year, 48,675 options were granted and all were outstanding at 31 December 2007. During the year no options were exercised or cancelled or had lapsed. For the share options outstanding as at 31 December 2007, the weighted average remaining contractual life is 9 years.

The group recognised total charges of £3,969 related to equity-settled share-based payment transactions during the year (2006: £50,570).

**20. SHARE PREMIUM ACCOUNT AND RESERVES**

Group	Share premium account £'000	Other reserves £'0000	Profit and loss account £'000
At 1 January 2007	265	293	3,879
Retained profit for the year	-	165	(652)
FRS 20 share option charges	-	-	4
Currency translation differences on foreign currency net investment	-	-	(808)
<b>At 31 December 2007</b>	<b>265</b>	<b>458</b>	<b>2,423</b>

Company	Share premium account £'000	Other reserves £'0000	Profit and loss account £'000
At 1 January 2007	265	(165)	1,828
Retained profit for the year	-	216	1,937
FRS 20 share option charges	-	-	4
<b>At 31 December 2007</b>	<b>265</b>	<b>51</b>	<b>3,769</b>

**21. NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2007 £'000	2006 £'000
Operating profit	<b>10,292</b>	7,844
Amortisation of goodwill	<b>4,244</b>	2,563
Depreciation	<b>4,989</b>	1,311
(Increase)/decrease in stock	<b>(133)</b>	105
(Increase)/decrease in debtors	<b>(1,899)</b>	626
Increase/(decrease) in creditors	<b>7,007</b>	(7,912)
Loss on sale of fixed assets	<b>29</b>	15
Net cash inflow from operating activities	<b>24,529</b>	4,552

**22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	2007 £'000	2006 £'000
Increase/(decrease) in cash in the year	<b>7,419</b>	(661)
Cash inflow from financing	<b>86</b>	(9,668)
Cash inflow from amounts due to Parent	<b>(46,208)</b>	-
Change in net debt resulting from cash flows	<b>(38,703)</b>	(10,329)
Unpaid interest and management charges accrued in the year	<b>(11,068)</b>	-
	<b>(49,771)</b>	(10,329)
Net debt at start of year	<b>(61,880)</b>	(51,551)
Net debt at end of year	<b>(111,651)</b>	(61,880)

**23. ANALYSIS OF CHANGES IN NET DEBT**

	At 1 January 2007 £'000	Cash flow £'000	Acquisitions £'000	Other non-cash movements £'000	At 31 December 2007 £'000
Cash at bank	<b>3,749</b>	7,419	-	-	11,168
Borrowings from parent	<b>(65,518)</b>	(46,208)	-	(11,068)	(122,794)
Finance leases	<b>(111)</b>	86	-	-	(25)
	<b>(61,880)</b>	<b>(38,703)</b>	-	<b>(11,068)</b>	<b>(111,651)</b>

## Notes to the Financial Statements - continued

**24. ACQUISITIONS**

On 27 March 2007 the group acquired the entire share capital of Compel Group plc for a consideration of £55.2m including acquisition costs. An analysis of the acquisition is as follows:

	Book value £'000	Accounting policy alignments £'000	Fair value adjustments £'000	Provisional fair value £'000
Tangible fixed assets	11,344	(1,279) <sup>(a)</sup>	(3,343) <sup>(b)</sup>	6,722
Stock	2,494	-	-	2,494
Debtors	14,637	(462) <sup>(c)</sup>	(219) <sup>(d)</sup>	13,956
Cash	1,407	-	-	1,407
Creditors	(10,148)	(2,962) <sup>(e)</sup>	(2,401) <sup>(f)</sup>	(15,511)
<b>Total assets</b>	<b>19,734</b>	<b>(4,703)</b>	<b>(5,963)</b>	<b>9,068</b>
Goodwill arising on acquisition				46,133
				<b>55,201</b>
Satisfied by:				
Cash				53,212
Costs associated with the acquisition				1,989
				<b>55,201</b>

The results for Compel Group plc for the period from 1 July 2006 to 27 March 2007 and for its preceding financial year ended 30 June 2006, on the basis of accounting policies prior to acquisition, are set out below:

	Period from 1 July 2006 to 27 March 2007 £'000	Year ended 30 June 2006 £'000
Turnover	<b>62,394</b>	92,647
Cost of sales	<b>(45,679)</b>	(68,674)
Gross profit	<b>16,715</b>	23,973
Operating expenses	<b>(16,008)</b>	(21,816)
Operating profit	<b>707</b>	2,157
Interest	<b>70</b>	101
Profit before taxation	<b>777</b>	2,258
Taxation	<b>(233)</b>	(824)
Profit after taxation	<b>544</b>	1,434

Goodwill arising on the above acquisition has been capitalised.

## Adjustments:

- (a) increase in provision against value of rentals assets in product lines that are being phased out from the service offering or are slow moving
- (b) reflects a reduction in the carrying value of fixed assets based on managements expected realisable value
- (c) an adjustment in the recognition of sub-contract service costs to spread them evenly over the term of the service contracts
- (d) requirement for credit note provision following a review of revenue recognised
- (e) an adjustment in recognition of service revenues to spread them evenly over the term of the services contracts
- (f) a reassessment of the provision for property dilapidations and cost accruals in line with the group accounting policies

These fair values are provisional and will be reviewed in the future to ensure that they remain reasonable.

There were no recognised gains and losses as at 27 March 2007 and 30 June 2006 other than the profit recognised above.

On 6 January 2006 the group acquired the entire share capital of Kingswell Data Management Limited for a consideration of £1.1m including acquisition costs and net of cash acquired. An analysis of the acquisition is as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Tangible fixed assets	110	-	110
Debtors	1,865	-	1,865
Cash	1,000	-	1,000
Creditors	(2,330)	-	(2,330)
<b>Total assets</b>	<b>645</b>	<b>-</b>	<b>645</b>
Goodwill arising on acquisition			1,435
			<b>2,080</b>
Satisfied by:			
Cash			1,200
Deferred consideration			800
Costs associated with the acquisition			80
			<b>2,800</b>

The results for Kingswell Data Management Limited for the period from 1 January 2006 to 5 January 2006 and for its preceding financial year ended 31 March 2004 are set out below:

	Period from 1 January 2006 to 6 January 2006 £'000	Year ended 31 December 2005 £'000
Turnover	34	7,258
(Loss)/profit before taxation	(8)	(653)
Taxation	-	228
<b>(Loss)/profit after taxation</b>	<b>(8)</b>	<b>(425)</b>

There were no differences between the book value and fair value of the net assets acquired. Goodwill arising on the above acquisition has been capitalised.

## 25. CAPITAL COMMITMENTS

The Group had capital commitments at 31 December 2007 of £0.8m (2006: £nil).

## 26. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2007 (2006: £nil).

## Notes to the Financial Statements - continued

**27. LEASING COMMITMENTS - GROUP**

Operating lease payments amounting to £1.6m (2006: £1.4m) are due within one year. The leases to which these amounts relate expire as follows:

	Land and Buildings £'000	Other £'000
In one year or less	658	958
Between one and five years	1,293	2,177
In five years or more	590	-
	<b>2,541</b>	<b>3,135</b>

**28. ULTIMATE HOLDING COMPANY**

The company's ultimate holding company is 2e2 Holdings Limited, a company incorporated in the United Kingdom. 2e2 Holdings Limited is the only group which consolidates these accounts. Accounts for the ultimate holding company are available from its registered address of The Mansion House, Benham Valence, Newbury, RG20 8LU.

**29. 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.

**30. POST BALANCE SHEET EVENTS**

On 15 May 2008, the group has entered into an agreement to sell Hamilton Rentals Limited for £10m. This transaction is still subject to a number of conditions before the transaction will complete, including final credit approval from the acquirer's finance partners.

## Notes

# Notes

## Company Information

**Company Registration Number**  
4826387

**Date of Incorporation**  
9 July 2003

**Registered Office**  
The Mansion House  
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**Secretary**  
Simon Burt

**Directors**

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T Burt (Chief Executive)

M McVeigh  
N Grossman  
S Burt  
J Harper  
J Loveland  
K Mullford

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