Annual Report and Accounts 2009

"Good for **you**. *Good for* **us**. *Good for* **everyone**.*"*

accessplus
an office2office company

"office2office plc (o2o) has been transformed into a leading managed services business focused on managed procurement and business critical services. Our aim is to deliver a sustainable first rate service to all our customers."

S R Moate
Chief Executive

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Financial Highlights

	2009	2008
Revenue	£187.5m	£181.0m
Profit before tax	£8.1m	£9.6m
Basic earnings per share	17.2p	18.5p
Underlying profit before tax[1]	£13.1m	£12.1m
Underlying earnings per share[2]	27.1p	24.1p
Net debt	£27.8m	£29.7m
Final dividend proposed – payable 21 May 2010	£2.8m 7.8p per share	£2.7m 7.5p per share
Total dividend for the year	£4.1m 11.4p per share	£4.0m 11.0p per share

1. Profit before tax, exceptional and non-recurring costs of £3.6m (2008: £1.8m), £0.4m share option charges (2008: £nil) and amortisation of intangibles relating to acquisitions of £1.0m (2008: £0.6m) (refer to the consolidated income statement on page 34).

2. Profit after tax (before the after tax effect of exceptional and non-recurring costs, share option charges and amortisation of intangibles relating to acquisitions) divided by the weighted average number of Ordinary shares in issue (refer to note 11 to the financial statements).

Chairman's Statement

D J Callear Chairman

I am pleased to report Group results in line with market expectations.

Underlying pre-tax profit improved, despite ongoing product cost inflation and some softening of sales, particularly in the private sector. We achieved this result by increasing our market share through new business wins, retaining all significant contract customers, effectively managing product cost increases and accelerating efficiency improvements across the enlarged group.

The external sales environment remained tough throughout 2009. Management focus was directed both to maximise our sales performance in this environment and, internally, to improve business operations further. Planned efficiency and centralisation improvements were accelerated and we believe that all key aspects of the business are now operating more efficiently than ever before.

Results

Group revenue in 2009 increased to £187.5m (2008: £181.0m). Underlying profit before tax rose by 8.8% to £13.1m (2008: £12.1m), before exceptional and non-recurring costs of £3.6m (2008: £1.8m), share option charges of £0.4m (2008: £nil) and amortisation of intangibles of £1.0m (2008: £0.6m). Profit before tax, after all such charges, was £8.1m (2008: £9.6m) and profit after tax was £6.3m (2008: £6.6m). Basic earnings per share were 17.2p (2008: 18.5p), the reduction being caused by non-recurring costs. Underlying earnings per share were 27.1p (2008: 24.1p).

Cash and net debt

Cash generated from operations increased to £11.7m (2008: £5.6m). Net debt , after payment of the 2008 final dividend of £2.7m (2008: £2.4m), the 2009 interim dividend of £1.3m (2008: £1.3m), income tax of £2.8m (2008: £2.0m) and capital expenditure of £2.1m (2008: £0.3m), was reduced to £27.8m at 31 December 2009 (2008: £29.7m).

Our borrowing facilities remain unchanged at £45.0m. The facilities, which are committed until April 2013, comprise a term loan of £25.0m and an invoice discounting arrangement of up to £20.0m on which we are charged interest at 1.1% over LIBOR and 0.9% over bank base rate, respectively.

The first repayment of £2.5m on the term loan is due in April 2010 and will be repaid out of operating cashflows. The second repayment is due in April 2011. Financial covenants are applied to the committed facilities and the Group has continued to comply with these with significant headroom.

Dividends

The Board recommends a final dividend of 7.8p per share (2008: 7.5p), which, if approved at the annual general meeting (AGM), will be paid on 21 May 2010 to shareholders on the register at the close of business on 23 April 2010. Combined with the interim dividend paid in November 2009, this makes a total dividend per share of 11.4p (2008: 11.0p) and amounts to a distribution of £4.1m (2008: £4.0m). The total dividend, paid and payable for the year, is covered by earnings 1.5 times (2008: 1.7 times).

Review of operations

Markets remained challenging during 2009 with continued product cost inflation combining with both volume and sales price pressures. Despite this, both Group sales and underlying profit grew in the period, reflecting the mix of new sales wins, contract retentions and improved efficiencies across the Group.

In addition to our sales focus, we concentrated our efforts on streamlining the Group's operations to reflect the underlying market conditions and on integrating all business areas with central operations and back office support functions.

A full review of Group operations is included in the Chief Executive's Review.

Employees

This was a challenging year and our employees have had to work hard to deliver the results outlined above. They continue to show commitment to the Group, despite the necessary pay freeze implemented in 2009 and I would like to thank them.

Acquisitions

On 18 February 2010, we announced the acquisition of the trade and certain assets relating to the business process outsourcing (BPO) division of The Print Factory London (1991) Limited (in administration) and The DSR Group Limited (in administration). These assets include two leasehold properties, certain employees of the BPO business and a wide range of customer relationships and contracts recently generating approximately £20m annualised turnover. This business will be amalgamated with our own BPO activity which operates as AccessPlus. Further details are provided on page 8 in the Chief Executive's Review.

On 1 February 2010, we acquired the trade and assets of the Newbury branch of office supplies dealer, Martin Luck Limited. This business has been integrated with the Group's mid market managed procurement activity.

We shall continue to seek further earnings enhancing acquisition opportunities.

Outlook

Trading for the first quarter of 2010 is in line with management expectations, having recovered from the adverse weather conditions at the beginning of the year.

The Group now has the right infrastructure and distribution footprint relative to its size and we are in better operational shape than we have been previously. Our aim in 2010 is to capitalise on this efficient operating structure and focus on growth. We will strive competitively to deliver the best available products and services in our sector as we further develop our emphasis on the business services portfolio.

The general economic outlook for 2010 remains uncertain. In particular, it appears inevitable that efficiencies and cuts in public sector spending will be made. This, however, represents as much an opportunity to the Group as a threat. We are offering an expanding range of government compliant office products and services to both existing and new customer departments and our contract model and environmental focus position us well to benefit from our inclusion as a supplier on the new Pan-Government Collaborative Framework.

AGM

The AGM will be held at the Company's head office, St Crispins, Duke Street, Norwich on 18 May 2010 at 11.00 a.m. Notice of the AGM together with the proxy forms for use at the AGM, will be circulated with the financial statements.

D J Callear

Chairman

24 March 2010

Chief Executive's Review

Simon Moate Chief Executive

In common with many businesses, o2o was impacted by the severe economic downturn in 2009. We responded by right-sizing our business to deliver the lowest cost to serve ratio in the Group's history and to secure a number of important contracts. As a result, we have improved the Group's underlying profitability year-on-year. In 2010, we are focused on achieving profitable growth by cross-selling our business services portfolio to our existing clients.

Executive summary

We began 2009 with the challenge of renewing longstanding contractual relationships with both NHS Supply Chain and Barclays. These contracts represent a material proportion of the Group's revenues and both were renewed successfully albeit, as anticipated, at reduced margins.

Soon afterwards, Banner Business Services (BBS) won a contract with the Ministry of Justice from a key competitor. This prestigious new account demonstrated the competitiveness of our proposition in the public sector and a number of other new contracts were secured during the course of the year.

Despite these successes, o2o was not immune to the effects of the downturn, although all areas of the business made a positive contribution to Group profitability. The unprecedented product cost inflation that we experienced in 2008 continued, driven by a combination of manufacturer pricing policies and adverse exchange rates. In particular, substantial cost increases were incurred in proprietary branded printer consumables, which represent a significant proportion of the BBS and Accord Office Supplies (Accord) businesses.

The economic conditions prompted many customers to focus their purchasing on lower priced, "contract" products, which contributed to the reduction in our overall gross margin to 30.7% (2008: 31.4%). Customers' discretionary marketing expenditure declined substantially which resulted in a corresponding fall in the AccessPlus non-contracted print volumes, although this impact has, in part, been mitigated by growth in its contracted business process outsourcing service.

Finally, underlying volumes inevitably suffered as the recession continued into the second half of 2009. Whilst BBS held up well, the impact on Accord, which is focused on the mid market and SME sectors, was significant.

Managing the impacts of this difficult commercial environment was a key focus across the Group.

Firm foundations

In last year's review, I explained how the Group had been restructured following our strategic decision to withdraw from the Ministry of Defence office supplies contract in 2007. That decision resulted in a material loss of revenue but was the catalyst for change within our business. For o2o, it meant that the recession and the work needed to offset its impact effectively started a year early.

Since that time, the Group has been transformed and we are now business services focused and well placed to exploit the opportunities that will emerge as economic conditions improve. Under the four brands: BBS, Accord, AccessPlus and Banner Document Services (BDS), we offer managed procurement and business critical services.

Managed procurement

Managed procurement helps our customers to reduce their expenditure on office and business products, ethically and sustainably. BBS is a market leader in the larger corporate and public sectors, while Accord is one of the largest dealers in the UK mid market sector.

Business critical services – communications and document destruction services

AccessPlus provides communication services through creative design, print management, fulfilment and response handling services, enabling customers to outsource these requirements from a single provider and thereby reduce costs. BDS provides its customers with both on-site and off-site document destruction services, meeting a growing requirement to ensure that the disposal of obsolete documents and materials is achieved securely and responsibly, whilst ensuring that as much of the waste material as possible is recycled.

We are encouraged by our success in cross-selling these services into the Group's client base. Building on this opportunity lies at the heart of our strategy for 2010 and beyond.

banner

Managed Procurement | BBS

BBS is a market leader in the large contract supply of business products and services. BBS delivers value by helping its customers manage their procurement effectively and thereby reduce their expenditure, whilst ensuring the highest standards of business ethics and environmental sustainability.

BBS enjoyed an excellent start to 2009, retaining significant contracts with NHS Supply Chain and Barclays. Subsequently, the Ministry of Justice contract was secured, which delivered an important new business win in the year. Other new business contracts followed and no material existing contracts were lost.

"Banner" is strong in the corporate and public sectors, where the name enjoys considerable recognition and trust. Leveraging this will play a key role in the Group's strategy to cross-sell its portfolio of business services in 2010. BDS demonstrates the potential of this approach.

To date, BBS has weathered the recession well, albeit volumes in the private sector did soften during the second half of 2009. Product cost inflation continued to impact the business but this has been largely mitigated by working closely with customers to minimise its impact.

A key issue has been the trend towards lower cost contracted products at the expense of more profitable non-contracted items. BBS has responded to this by promoting the introduction of "open book" contracts, transparent commercial mechanisms that are designed to benefit both customer and supplier in delivering savings.

Social and environmental issues are increasingly important to BBS's corporate and public sector customers. The Group offers over 1,000 environmentally preferred products under the Globe & Tick™ brand and publishes a "Green Guide" of sustainable products and services. It also provides customers with the Green OPTIMISA™ system to measure the environmental impacts of their purchases.

Shortly after the year end, we announced that BBS had been successful in its bid to secure a place on the new Pan-Government Collaborative Framework. This framework provides public sector customers with a supply route for a wide range of products and services including secure shredding services, as sold by BDS. It presents us with a compliant mechanism to defend our existing contractual relationships within the public sector whilst presenting an important route to consolidate and grow our share of this market.

To better capitalise on these and other sales opportunities, BBS changed its sales territories in the final quarter of 2009 to improve sales team productivity and develop closer relationships with customers at a local level. We are already beginning to see the benefits of this.

Managed Procurement | Accord

Accord is our mid market sector managed procurement brand. It is one of the largest dealers in the UK and provides customers with a wide range of office and business products, excellent service and strong local support.

The strength of Accord's proposition lies in its excellent service, local sales representation and competitive prices. Since acquisition in 2008, Accord has enjoyed the benefits of the Group's purchasing power. However, customers have continued to seek competitive pricing and there has been an increasing trend towards competitive tendering. In addition, underlying volumes were impacted by the recession, although these stabilised later in the year and have since shown some signs of recovery.

Like BBS, Accord also suffered from increases in product costs driven by inflation and weakness in sterling but has been largely successful in mitigating these impacts. The business is now fully integrated into the Group's logistics, purchasing and back office functions.

Recently, the difficult economic conditions have resulted in a number of independent office products dealers facing financial difficulties. On 1 February 2010, the trade and assets of the Newbury branch of office supplies dealer, Martin Luck Limited, were acquired by the Group and have since been integrated with Accord. All further opportunities will be considered on their merits.

Whilst trading conditions in 2010 remain uncertain, Accord is well positioned to take advantage of any economic recovery.

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Business Critical Services | AccessPlus

AccessPlus specialises in the provision of business communication services. Its proposition spans the process from creative design to fulfilment and response handling, enabling customers to outsource any or all of these services to a trusted provider.

AccessPlus offers a complete solution for creative design, data solutions, logistics, campaign delivery and print management services. It has suffered from the impact of the economic downturn more than any other part of the o2o Group. A large proportion of its business is based on discretionary marketing spend, where demand reduced throughout the ensuing downturn. In total, non-contracted print volumes fell substantially year-on-year. This has been partly offset by an encouraging growth in sales of contracted BPO services.

To mitigate the reduction in volume, AccessPlus has been reorganised to deliver maximum synergies with the Group's back office and operational functions. In addition, selling these services into BBS and Accord customers is key to its growth and a number of successes have been achieved in this respect, despite the difficult prevailing economic conditions. Notable examples of new customers taking advantage of the Group's enlarged service offering include the NHS and G4S. The AccessPlus sales team has recently been restructured to provide local, specialist support to the BBS and Accord businesses.

Since the year end, AccessPlus has expanded its position in the BPO sector following the acquisition of the trade and certain assets relating to the BPO division of The Print Factory London (1991) Limited (in administration) and The DSR Group Limited (in administration) on 17 February 2010. This development, which broadens our customer base and increases our market coverage, underpins our confidence that this business will deliver increasing value as economic conditions improve.

Business Critical Services | BDS

BDS is the Group's brand in the secure document destruction market and is a partnership arrangement with Shred Easy Limited. o2o owns 60% of the issued share capital of BDS and has the option to acquire either Shred Easy Limited or the minority interest in the partnership.

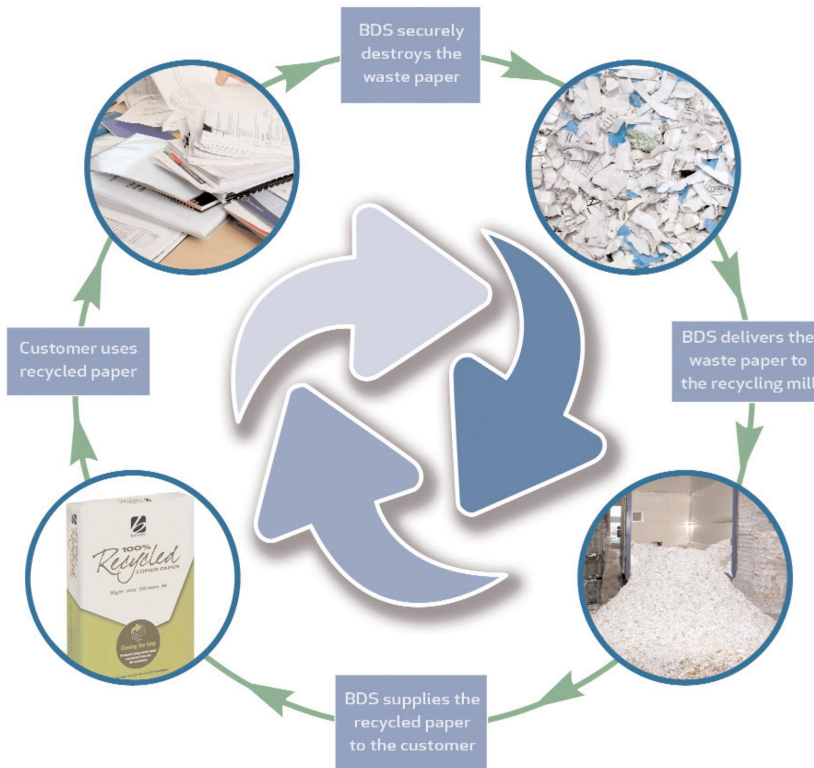
BDS began trading in January 2009 and its performance met all management expectations in this, its first year. By the end of the year, BDS was providing a national service through its UK-wide infrastructure to many of the Group's large public sector customers including most of the HMRC property estate and, increasingly, to the Ministry of Justice. In addition, BDS services many NHS locations through its secure off-site service. BDS has not been greatly impacted by the recession as its business is driven largely by legislation and the threat to customers of security risks.

The business offers customers a variety of disposal services, with a key focus on environmental sustainability and recycling. The core of its business is the provision of on-site destruction services, utilising specialist vehicles that incorporate large shredders. Off-site destruction services are also provided to customers for where an on-site solution is inappropriate.

This is a fast growing and attractive market. A particular opportunity exists in the public sector, where awareness of the importance of secure disposal has grown following a number of high profile lapses. The public sector is also attracted to the comprehensive audit trail that BDS is able to provide, from destruction to recycling.

Critically, the new Pan-Government Collaborative Framework, on which BBS has secured a place, includes the provision of secure disposal services. Growing its business in this sector will be a key focus for BDS in 2010.

"Close the Loop" initiative



As part of the BDS secure paper collection, destruction and disposal service, shredded and declassified materials are taken to secure facilities where they are recycled for manufacture into low grade paper products. Being one of the largest distributors of copier paper in the UK, o2o is taking this service a step further with its "close the loop" initiative. Having supplied the customer with copier paper and, in due course, collected and securely shredded the used paper, the waste material is then sent to o2o's specialist mill partner to be turned into copier paper for re-sale back to the customer.

Production trials have been completed and the quality of the recycled paper has exceeded expectations. It is intended to roll out this initiative during 2010.

Delivering our operating strategy

The Group has responded to business challenges by right-sizing to fit the new commercial and economic reality. We completed our organisational restructuring based on the four customer-facing brands referred to above, supported by a more efficient centralised operations and back office function.

The consolidation of our warehousing, logistics and procurement functions under Group management was materially completed by the end of the third quarter, without disruption to customer services. The centralisation of back office services, including HR, payroll, finance, payables and management accounts, has also been completed.

As well as rationalising the organisation, we have made appropriate investments to improve efficiency. A new fleet management system has improved the efficiency of our delivery vehicles, whilst new "track & trace" technology enables us to manage the fulfilment process more effectively. These activities have enabled us to achieve the lowest warehouse and distribution cost to sales ratio in the Group's history and has been crucial to maintaining profitability in 2009.

"Banner"

The recognised value of the "Banner" office products brand will be employed more fully in the future. It already enjoys strong recognition in the contract market and, in particular, the public sector where significant trust has been built on the basis of a long established trading history.

The brand opportunity was further strengthened at the end of 2009, when it was announced that BBS has secured a place on the new Pan-Government Collaborative Framework for the supply of office products and services. This framework enables us to offer public sector bodies a compliant supply mechanism for both managed procurement and secure disposal services.

Corporate social responsibility (CSR) – 'Good for you, good for us, good for everyone'

We believe that we are differentiated by our CSR proposition. CSR is increasingly important to the Group and its large managed contract customers in both the public and private sector.

In 2009, the Group introduced a new trading ethic, 'Good for you, good for us, good for everyone', that reflected our determination to make real progress in this area. The words have been matched by our actions.

Our investment in a new fleet management system has reduced the fuel consumption and noise pollution of our delivery fleet, which enabled o2o to secure the British Office Supplies and Services (BOSS) Federation Industry Award for the Environment in 2009. We have transformed our National Distribution Centre (NDC) in Manchester, by introducing comprehensive recycling facilities and many other new initiatives recommended by the Environment Agency. Our accreditation to the ISO14001 environmental management standard has been extended to include our Basingstoke operation and further sites will follow in 2010. Following the successful trials in producing recycled copier paper from our customers' waste paper, we intend to roll out and further develop our new "close the loop" initiative.

These and many other CSR achievements will be described more fully in the Group's CSR Review which is published under separate cover. We are committed to delivering further initiatives. From every perspective, commercial and ethical, it is the right thing for us to do.

Management and employees

In 2009, o2o completed the integration of the back office functions of Accord and AccessPlus with those of the Group. As a result, the brand managers are now focused solely on sales, commercial management and customer service, whilst enjoying the improved efficiency of consolidated Group functions.

We have sought to develop an open and approachable management style and I have been encouraged by the improved communication and relationships across the Group at all levels. I would like to take this opportunity to thank our employees for their continued support during a difficult year, despite the commercial necessity of maintaining a salary freeze. They remain our greatest asset and we highly value their experience, expertise and loyalty.

Outlook

Whilst trading conditions in 2009 have been difficult, the Group has successfully improved the level of underlying profit before tax year-on-year. This achievement reflects both the underlying strength of our business and our ability to implement essential management decisions quickly and effectively. Having taken the necessary steps to reshape the business from as early as 2007, we are confident that our cost base is now appropriate to our business strategy and prevailing market conditions.

As we move into 2010 our focus is on business growth and, in particular, on maximising the opportunity to cross-sell the Group's portfolio of business services into its established client base. We recognise that the expectation of public sector expenditure cuts creates some uncertainty. Nonetheless, our success in securing a position on the Pan-Government Collaborative Framework provides us with a significant opportunity to both grow our secure disposal services business and strengthen our position in the public sector.

o2o continues to monitor the market for acquisition opportunities that will enhance its strategy to grow the business.

I believe that we are well placed to weather the challenges of 2010.

S R Moate

Chief Executive

24 March 2010

Business and Financial Review

Revenue and profit

Total revenue increased by £6.5m (3.6%) to £187.5m (2008: £181.0m). £8.2m of the increase came from a full year's trading of the businesses acquired in 2008, partially offset by a decrease in revenues of £1.7m elsewhere, as a result of the wider economic conditions experienced in 2009. Underlying profit before tax was £13.1m (2008: £12.1m) before exceptional and non-recurring costs of £3.6m (2008: £1.8m), amortisation of intangibles relating to acquisitions of £1.0m (2008: £0.6m) and share option charges of £0.4m (2008: £nil). Operating profit before such costs was £14.0m (2008: £13.4m) and operating profit after such costs was £9.0m (2008: £11.0m). Profit before tax, after such costs, was £8.1m (2008: £9.6m) and profit after tax was £6.3m (2008: £6.6m). The underlying profit margin increased to 7.0% (2008: 6.7%).

Exceptional and non-recurring costs are those significant items that are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's operating performance. Transactions, which may give rise to exceptional and non-recurring costs, are principally restructuring related charges and costs in respect of key management changes. A full analysis of the exceptional and non-recurring costs is set out in note 5 to the financial statements.

Tax

A full analysis of the tax charge for the year is set out in note 9 to the financial statements.

The Group's effective tax rate in 2009 was 22.0% (2008: 31.2%). The reduction in the effective tax rate reflected the utilisation of previously unrecognised brought forward trading losses and the unwinding of the deferred tax liability arising in respect of the fair value adjustments to the intangible fixed assets in respect of the acquisitions in 2008. The amount of corporation tax payable for the year is £2.2m (2008: £2.6m).

The effective tax rate in the near future is anticipated to continue to be slightly less than the standard rate, due to releases of deferred tax liabilities arising on business combinations, partially offset by expenses not deductable for tax purposes.

Shareholders' return

Basic earnings per share were 17.2p (2008: 18.5p) with underlying earnings per share of 27.1p (2008: 24.1p). The total dividend paid and payable for the year of 11.4p per share (2008: 11.0p), including the 3.6p interim dividend (2008: 3.5p) paid on 13 November 2009, is covered 1.5 times by earnings (2008: 1.7 times). Shareholders' equity at the end of the year was £22.6m (2008: £20.2m).

The middle-market quotation of the Company's Ordinary shares at the end of the financial year was 145.5p with a market capitalisation of £52.8m (including shares held by the employee benefit trust).

Cash flow

As set out on page 39, the Group generated net cash from operating activities of £8.0m (2008: £2.1m). At 31 December 2009 net debt, incurred as a consequence of the acquisition activity in 2008, amounted to £27.8m a decrease of £1.9m compared to net debt of £29.7m at the start of the year.

The net debt of £27.8m is supported by committed borrowing facilities of £45.0m which are in place until April 2013. The facilities comprise a term loan (£25.0m) which is repayable over 5 years with the first instalment of £2.5m due in April 2010, and an invoice discounting arrangement (up to £20.0m) on which we are charged interest at 1.1% over LIBOR and 0.9% over bank base rate respectively. Financial covenants are applied to the committed facilities and the Group has continued to comply with these with significant headroom.

Key contractual arrangements

The Group has always had a number of large customers. With our major customers, our approach is to seek long term, strategic relationships, based on managed services and shared interests. The term for a typical supply arrangement is between 3 to 5 years and we have a record of successful contract retention.

A key aim for the Group has been to enlarge and diversify the customer base. This has been achieved both organically and by taking advantage of suitable acquisition opportunities. As a consequence, when compared to previous years, the Group's reliance on any one individual customer has been reduced.

The Group has a wide range of suppliers and it is possible that the challenging economic conditions could impact some. However, the Group has limited exposure to the failure of any single supplier as the nature of the majority of products purchased is such that other options are normally readily available. The Group maintains flexibility with its suppliers by typically not making contractual volume commitments.

It is the Group's policy to negotiate, with each of its principal suppliers, terms of trade appropriate to the business and to operate within those terms once agreed. With a wide range of suppliers, the terms of trade operated by the Group are diverse, with no standard characteristics prevailing.

The Group works in partnership with suppliers to ensure, as far as reasonably practicable, that its sourcing of products meets recognised standards of corporate social responsibility. The CSR statement on page 14 gives a description of the approach o2o takes in this regard.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out below:

- **Loss of a large customer**

The Group has a number of large customers and is therefore potentially vulnerable to the loss of any one of these. Contingency plans are formulated and quantified before any large re-tenders are submitted so that the business is able to respond rapidly, with minimal disruption, to a large contract loss. This, coupled with a strategy of diversifying the customer base and widening the business portfolio at the same time as maintaining a high level of service, helps mitigate the risk;

- **Reduction in gross margins**

Gross margins are adversely impacted by increases in cost prices, due to raw material costs, foreign currency exchange movements and customers reducing their demand. Last year saw unprecedented rises in raw material costs particularly oil, paper pulp and steel. The Group has sought to mitigate these increases, where

Key performance indicators (KPIs)

The KPIs which o2o regard as important measures for the Group business are gross margin, distribution and administration costs as a proportion of revenue, underlying profit as a proportion of revenue, underlying earnings per share and, in respect of non-financial KPIs, Health and Safety.

	2009	2008
Gross margin %	**30.7%**	31.4%

Gross margin percentage is calculated as the margin expressed as a percentage of Group revenue. It is the measure of profitability of sales less their direct purchase cost and is a comparable measure with other companies.

The gross margin % decreased by 0.7% due to cost price inflation together with the impact of a weaker sterling, mitigated wherever possible by negotiation with suppliers and passing unavoidable increases on to customers.

	2009	2008
Distribution costs %	**10.2%**	11.1%

Distribution costs percentage is calculated as the cost associated with distribution expressed as a percentage of Group revenue.

The distribution cost % decreased by 0.9% due to further efficiency improvements across the Group.

	2009	2008
Administration costs %	**13.1%**	12.9%

Administration costs percentage is calculated as the cost associated with administration (before £3.6m of exceptional and non-recurring costs (2008: £1.8m), amortisation £1.0m (2008: £0.6m) and share option charges £0.4m (2008: £nil)) expressed as a percentage of Group revenue.

The administration cost % increased by 0.2% due to the full year effect of the acquisitions operating at a higher cost % than BBS offset in part by further cost saving initiatives.

	2009	2008
Underlying profit %	**7.0%**	6.7%

Underlying profit percentage is calculated as the underlying profit (before exceptional and non-recurring costs, amortisation and share option charges) expressed as a percentage of Group revenue.

The underlying profit percentage increased as a result of distribution efficiencies referred to above, a lower level of finance cost being incurred during the year and a higher level of sales.

	2009	2008
Underlying earnings per share	**27.1p**	24.1p

Underlying earnings per share is calculated as the profit on ordinary activities after tax (before the after tax effect of exceptional and non-recurring costs, amortisation and share option charges) divided by the weighted average number of Ordinary shares in issue during the year.

The underlying earnings per share increased as a result of distribution efficiencies referred to above, a lower level of finance cost being incurred during the year and a higher level of sales.

	2009	2008
Health and Safety	**91.0%**	88.0%

A health and safety management system has been put in place across all sites. An external assessor audits the operation of the system across all sites and rates our performance. The audit covers 11 main areas of review (the most significant being health and safety management system, control of contractors, fire safety and risk assessment) which are then scored. In 2009, the external assessment of our performance was rated at 91.0% (2008: 88.0%), which compares to their assessment of the average for our industry sector of 85.0%.

possible, by passing these increases onto customers, but some resistance and lag is inevitable. Our experience has shown that widening the Group's portfolio of business products and services and driving efficiency improvements helps mitigate the risk and a focus on customer profitability allows for the situation to be monitored;

- **Interruption of operations or IT services**

The business is built around a proven service with reliance on our warehouses and IT infrastructure. A severe disruption in either of these areas would potentially have a high impact on the Group. In order to mitigate these risks we maintain appropriate insurance cover and disaster recovery plans;

- **Competitors**

BBS operates in a highly competitive market. The risk exists therefore, that contracts are awarded on the basis of lowest price. The Group's strategy is to deliver a first rate, added-value service at competitive prices. Recent contract wins and retentions underpin our confidence that this approach is valued by our customers. The services provided by AccessPlus and BDS further extend the range that can be offered to customers helping to further differentiate the Group from its competitors.

Accord operates in the less formal mid market sector. The Group's purchasing scale, national distribution and complementary range of products and services, together with the flexible approach offered by Accord, provides a distinct advantage in this sector;

- **Economic downturn**

The Group is subject to facets of the current global economic slowdown such as the weakening of sterling leading to cost price pressure and the potential for lower levels of employment leading to reduced demand for some of the goods and services provided by the Group. The economic downturn could impact suppliers. However, the Group has limited exposure to the failure of any single supplier as the nature of the majority of products supplied is such that other sourcing or product options are normally available.

The Group also has limited exposure to the failure of customers. As mentioned in the half yearly financial report, we are also mindful that the public sector may come under tougher budgetary constraints in the medium term, which could lead to a reduction in sales. The Group's committed borrowing facilities afford some protection against increased funding requirements should they arise. In addition, the broader base of the business following the acquisitions in the year, the wide spread of customers and the public sector element of our account base helps to mitigate the risks in the wider economy; and

- **Financial risk management**

The Group's activities expose it to a variety of financial risks, which include market risk (comprising currency risk, commodity price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk, the details of which are described in note 1 to the financial statements on pages 48 to 51.

M A Cunningham

Finance Director

24 March 2010

Corporate Social Responsibility Statement

o2o recognises that its business activities have a material impact on its employees, customers, suppliers, community and the environment. The Board is committed to ensuring that the Group acts in a responsible and ethical manner and that its good intentions are matched by its actions.

o2o takes CSR seriously for good commercial reasons. Delivering best practice in CSR means less waste, greater efficiency and reduced costs, which enables o2o to be more competitive. It is also increasingly expected by shareholders and customers.

During 2009, o2o delivered a number of CSR-related initiatives under its 'Good for you, good for us, good for everyone' trading ethic, and these have had a positive impact on o2o's performance. Performance measures have been established to quantify improvements and to help identify where corrective action is required. For more details, please refer to o2o's "CSR Review" document, which is published under separate cover.

Workplace

Following our recent acquisition in February 2010, details of which are provided in the Chairman's Statement, over 1,000 people are now employed within the Group, across a broad range of activities. o2o is committed to their development, to creating a positive internal culture and to ensuring a safe and healthy environment for them to work in.

Employees

o2o aims to provide a challenging yet rewarding environment that promotes equal opportunities and is free from discrimination and harassment.

Employees are encouraged and supported in their development to ensure competence in their roles and to help create a more satisfying work environment. A variety of methods are used ranging from on the job training, to in-house and external specialist training. 'Job shadowing' was introduced during the year to facilitate insight into other roles and increase knowledge across the business.

The diversity of the workforce is recognised in o2o's policies and practices, such as flexible working arrangements and participation in the Childcare Vouchers scheme.

o2o seeks to maintain an open, constructive and two-way dialogue with its employees. An in-house newsletter, called "Together", is produced regularly and an employee suggestion scheme called "Have Your Say!" rewards those employees whose suggestions are implemented.

All employees are invited to complete an annual online staff questionnaire. This is designed to capture employees' views regarding a wide range of issues and provides management with the opportunity to measure progress towards employee-related objectives. In 2009, the staff survey was completed by 81% of employees, up from 48.5% in the previous year. Some 72% of respondents said that they are proud to say that they work for o2o, up 11% from 2008.

Health & Safety

o2o is committed to ensuring the health, safety and welfare of its employees and others affected by its business activities and maintains awareness of the range of health and safety legislation relevant to its organisation and of the standards of proof required to demonstrate compliance.

All employees receive health and safety awareness training and British Safety Council (BSC) training has been extended; the senior operations managers now hold BSC Level 2 certificates and all members of the Head Office health and safety group have attained BSC Level 1 certificate.

A health and safety management system is in place across all sites which is audited by an external assessor. Each site has now been audited twice. The second audit in 2009, confirmed that each site had improved considerably and the Group surpassed the industry sector average in the prevention of accidents and ill health. The Group's health and safety advisor also carries out regular assessments and there are health and safety committees at each of o2o's premises.

Fire, manual handling, display screen equipment and workplace task-specific risk assessments are conducted at each site. Employees who drive company vehicles are assessed for their road and safety awareness and all delivery drivers undertake an internet based road safety course.

Community

As part of a wider community, o2o recognises that it has a responsibility to support it by helping local businesses and charitable organisations and encourages its employees to do likewise.

o2o offers work experience placements to students and, wherever practicable, preference is given to local businesses when outsourcing services such as catering, cleaning and recruitment.

Many o2o employees give their personal time, knowledge and experience to a wide range of community organisations. Some 53% of the respondents to o2o's annual employee survey said that they would be interested in doing this and o2o is currently exploring ways to facilitate this.

Employees across the Group have been particularly active during the year in raising funds for a wide range of different charities. This has prompted o2o to create a Charity Committee to ensure that efforts are co-ordinated and deliver maximum benefit.

Marketplace

o2o is a leading player within its target markets and is committed to supporting both customers and suppliers in delivering best practice in CSR.

Ethical sourcing

o2o sources globally on the precept of its own stringent ethical and environmental criteria. Suppliers are actively encouraged to implement environmental management systems and o2o will not knowingly source from companies who fail to meet these standards.

o2o's buyers visit suppliers' factories overseas and SGS, the leading provider of inspection and certification services, ensures compliance with the Ethical Trading Initiative Base Code on the Group's behalf. In 2009, SGS audited all suppliers of o2o's own brand products in Asia and will have completed audits on suppliers in the rest of the world by early 2010. The audits are focused on working practices, child labour and health and safety.

Environmentally preferred products

The Globe & Tick™ accreditation scheme makes it easy for customers to select environmentally preferred products, all of which have been stringently assessed using criteria laid down by an independent expert. Since its launch 15 years ago, the range has been expanded and now features over 1,100 products, which equates to 17% of o2o's total product lines.

The Green Guide, now in its sixth edition, secured a Green Apple Award in 2009. It includes details of o2o's range of Globe & Tick™ products as well as information about sustainable services and in-house environmental initiatives.

Catalogues and brochures

o2o's main catalogues are printed on paper made from 100% recovered waste. In 2009, the amount of packaging used to mail these was significantly reduced by 90% compared to the previous year.

Wherever possible, the use of electronic catalogues is promoted.

Green OPTIMISA™

The Green OPTIMISA™ system is designed to measure the environmental impacts of o2o's customers' purchasing and identify key opportunities for improvement. It works by evaluating and analysing the transactional data associated with a customer's contract, and applying it to known environmental metrics. The system was awarded a Green Apple Award in 2009.

Recycling services and "close the loop" initiative

o2o offers a wide range of recycling services including printer cartridges, technology and furniture products and, in accordance with recent legislation, batteries. BDS provides a secure document destruction, disposal and recycling service.

The "close the loop" initiative is o2o's latest development. Having supplied the customer with copier paper and, in due course, collected and securely shredded the used paper, the waste material is then sent to o2o's specialist mill partner to be turned into copier paper for re-sale back to the customer. Production trials have been completed and the quality of the recycled paper has exceeded expectations. It is intended to roll out this initiative during 2010.

Environment

The impact of o2o's trading activities on the environment has been assessed and an Environmental Management system implemented which is certified to the international standard ISO 14001:2004.

Waste management

As a national distributor of office products, o2o inevitably uses a significant volume of packaging. However, in 2009, a 30% reduction was achieved by using volumetric data to ensure that deliveries have just the right amount of packaging to ensure safe transit.

o2o promotes electronic trading which is key to reducing paper usage. In 2009, 75% of customer orders were sent through an e-commerce platform compared to 70% in 2008. In addition, many customers are invoiced electronically and there are electronic trading links in place with many of o2o's major suppliers.

Recycling

o2o is a member of the Valpak packaging compliance scheme which aims to minimise the use of packaging and maximise recycling.

During the year, o2o worked closely with the Environment Agency at its NDC in Manchester, to develop best practice in recycling. As a result, 113 tonnes of cardboard and 30 tonnes of plastic were recycled in 2009 compared to 81 tonnes of cardboard and 16 tonnes of plastic in 2008.

Energy management

o2o measures its energy consumption in an effort to reduce usage and cost. Some of its locations have switched to providers of renewable energy and the use of alternative power sources is being investigated by installing equipment to measure the potential for wind and solar power.

Other initiatives include:

- the installation in the NDC in Manchester of an air source heat pump which converts air drawn from the atmosphere into a source of heat which is then used to heat the radiators;
- a major refit of lighting throughout the NDC in Manchester; and
- the installation of motion sensors in areas where continuous lighting is not necessary.

Carbon management

o2o has implemented a number of initiatives to reduce o2o's carbon emissions.

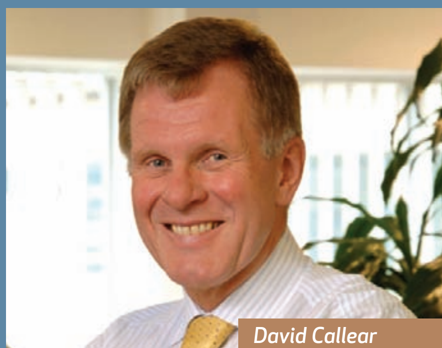
The new company car scheme encourages staff to select low emission vehicles. Sales teams have been reorganised to operate on a geographical basis and, wherever possible, video-conferencing is used to help reduce business related travel.

The CO2 emissions and fuel consumption of the delivery fleet is monitored regularly and is now almost entirely diesel run. Large goods vehicles and double deck trailers are used to optimise the number of journeys and trailers with aerodynamic curved tops for improved fuel efficiency have recently been introduced.

Back-loading arrangements exist with a number of key suppliers whereby delivery vehicles collect stock on their return to the warehouse in an otherwise empty vehicle. This maximises efficiency and minimises environmental impact.

A new fleet management system has improved the efficiency of our delivery vehicles. This achievement was recognised by the BOSS Federation, which awarded o2o its industry Environment Award for 2009.

Board of Directors



David Callear — Chairman

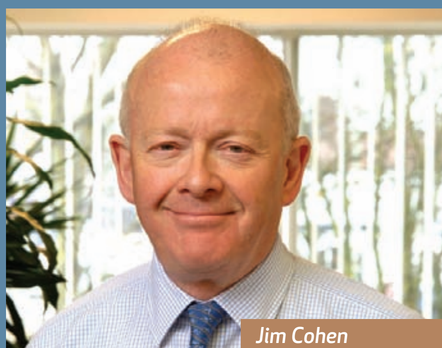
David, aged 56, is a Chartered Accountant and joined o2o as Chairman in January 2001. His career has been in financial and general management, mainly with publicly quoted companies including chief executive positions with TIP Europe plc (Europe-wide vehicle rental) and Jeyes Group plc (international household products manufacture and supply). He currently holds a number of non-executive chairman roles working with the boards of private companies including RP Martin Holdings Ltd and Swift Technical Group Holdings Ltd.

Simon Moate — Chief Executive

Simon, aged 47, joined o2o as Chief Executive in July 2007. He was previously an executive director of Johnson Service Group plc, the managed services business, where, as chief executive of the facilities management and specialist supplies division, he led and integrated a number of acquisitions. Prior to this, he held a number of senior sales, marketing and operations roles with blue chip companies, including Well Well Well Ltd, Aramark plc, Provend Group plc and Coca Cola.

Mark Cunningham — Finance Director

Mark, aged 43, is a Chartered Accountant and joined Her Majesty's Stationery Office in 1994. He was appointed Finance Director of Banner Business Services Ltd in 1999, having previously worked as Finance Controller. Mark became Finance Director of o2o in December 2000.



Jim Cohen — Senior non-executive Director

Jim, aged 68, joined o2o in June 2004. He was a main board executive director of Balfour Beatty plc until his retirement in February 2007. Prior to joining Balfour Beatty plc in 1993, he held senior management positions with GTE and GEC and was a senior civil servant at the Department of Energy. In April 2007, Jim took on a non-executive role for the Swiss construction company, Implenia AG and, in September 2009, joined the investment committee of the Netherlands based infrastructure fund, DIF II. He is also chairman of Empower Advisors Ltd, a private company, which is owned by Actis LLP and provides interim power generation in sub-Saharan Africa.

Chris Batterham — Non-executive Director

Chris, aged 54, joined o2o in June 2008 and is a Chartered Accountant with significant experience in the business services sector. He was finance director of Unipalm plc, the first internet company to float on the London Stock Exchange, and, latterly, chief financial officer of Searchspace Group until 2005. He currently holds a number of non-executive directorships including SDL plc, DRS Data and Research Services plc, Iomart plc, Betfair plc and, since September 2009, chairman of Eckoh plc.

Directors' Report

The Directors present their report and financial statements for the Group for the year ended 31 December 2009.

Principal activities and results

The principal activity of the parent Company (the Company) is that of a holding company. office2office plc is registered at Companies House under company number 04083206.

The Group's principal activities are delivering managed procurement and business critical services. Net profit after tax for the financial year was £6.3m (2008: £6.6m).

Business and Financial Review

The Business and Financial Review has been prepared in accordance with the requirements for a business review under the Companies Act 2006. The intent is to provide information to shareholders and should not be relied on by any other party or for any other purposes.

The Group's strategy, objectives and likely future developments in the business are reviewed in the Chairman's Statement on pages 2 to 3 and in the Chief Executive's Review on pages 4 to 11. The KPIs are defined and the principal risks and uncertainties (including financial risks) facing the business are described in the Business and Financial Review on pages 12 to 13.

Where the annual report contains forward looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward looking statements or information.

Post Balance Sheet events

On 1 February 2010, the trade and assets of the Newbury branch of office supplies dealer, Martin Luck Limited, were acquired.

On 18 February 2010, the aquisition of the trade and certain assets relating to the BPO division of The Print Factory London (1991) Limited (in administration) and The DSR Group Limited (in administration) was announced by the Group. Further details are provided on page 8 in the Chief Executive's Review.

Dividends

An interim dividend of 3.6p (2008: 3.5p) per Ordinary share, amounting to £1.3m (2008: £1.3m), was paid on 13 November 2009 to shareholders on the register at close of business on 9 October 2009.

The Directors recommend a final dividend in respect of the year ended 31 December 2009 of 7.8p (2008: 7.5p) per Ordinary share, amounting to £2.8m (2008: £2.7m). If authorised at the AGM, the dividend will be paid on 21 May 2010 to shareholders on the share register at close of business on 23 April 2010.

The aggregate dividends recognised as appropriations of profit in the year ended 31 December 2009 amounted to £4.0m (2008: £3.7m).

Share capital and substantial shareholders

The authorised, issued and fully paid share capital of the Company, are shown in note 25 of the financial statements.

There are no contracts of significance in place between the Group and its shareholders (2008: none).

The Company has been notified in accordance with Disclosure and Transparency Rule 5.1.2 of the Financial Services Authority that, as at 15 March 2010, the following shareholders owned more than 3% of the issued Ordinary share capital of the Company:

Aberforth Partners	8,346,900 shares	22.99%
AXA Investment	5,672,329 shares	15.62%
Aviva Investors	2,415,419 shares	6.65%
F & C Asset Management	2,372,117 shares	6.53%
Baillie Gifford	1,822,359 shares	5.02%
Rensburg Sheppards Investment	1,412,000 shares	3.89%
Hermes Pensions Management	1,312,300 shares	3.61%
M A Cunningham	1,089,549 shares	3.00%

At the last AGM, the Directors were given authority to allot Ordinary shares (within the meaning of Section 80 Companies Act 1985) up to a maximum nominal amount of £121,030 (being one-third of the issued Ordinary share capital) and the power to disapply pre-emption rights in respect of the allotment of shares (under Section 95 Companies Act 1985) up to an aggregate nominal value of £18,154 (representing 5% of the issued Ordinary share capital). In addition, the Directors were given authority, on behalf of the Company, to make market purchases of up to 3,630,898 Ordinary shares of the Company (being 10% of the issued Ordinary share capital).

These authorities, which continue to have legal effect as if made under the relevant section of the Companies Act 2006, are due to expire at the end of the forthcoming AGM. Separate resolutions to renew these authorities within the meanings of the Companies Act 2006, will be set out in the notice of meeting and proposed at the AGM on 18 May 2010.

Special business to be considered at the forthcoming AGM

There will be two items of special business to consider at the forthcoming AGM: an ordinary resolution to revoke

the provision in the Company's Articles of Association (the Articles) setting the maximum amount of shares that may be allotted; and a special resolution to approve a 14 day notice period for general meetings.

Ordinary resolution

As mentioned above, the Directors will be seeking to renew their authority to allot Ordinary shares up to a maximum nominal amount of £121,030 (being one-third of the issued Ordinary share capital).

The Association of British Insurers (ABI) has recently revised its guidelines on directors' authority to allot shares. The guidelines state that resolutions seeking authority to allot shares representing up to two-thirds of the issued share capital, will be treated as routine. This additional authority (that is the authority to allot shares representing the additional one-third of the issued share capital) can only be used to allot shares pursuant to a fully pre-emptive rights issue.

In light of these guidelines, the Directors will be seeking authority to allot shares in the capital of the Company up to a maximum nominal amount of £242,060 representing the guideline limit of approximately two-thirds of the issued share capital. The Company currently has issued share capital of £363,089.84 and is restricted by its Articles to a maximum nominal amount of £500,000. Shareholder approval, via ordinary resolution, will therefore be sought to revoke this restriction in the Articles.

Special resolution

Changes made to the Companies Act 2006 by the Shareholder Rights' Regulations increase the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot, however, be less than 14 clear days. AGMs will continue to be held on at least 21 clear days' notice.

Before the coming into force of the Shareholder Rights' Regulations on 3 August 2009, the Company was able to call general meetings (other than an AGM) on 14 clear days' notice without obtaining such shareholder approval. Therefore, a special resolution will be proposed in order to preserve this ability. The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

Directors

The following were Directors during 2009 and held office throughout the year under review up to the date of signing these financial statements:

D J Callear
Chairman[1]

S R Moate
Chief Executive

M A Cunningham
Finance Director

J L Cohen
Non-executive Director[2]

C M Batterham
Non-executive Director[3]

[1] Chairman of the Board and of the Nomination Committee. Member of the Remuneration Committee.

[2] Chairman of the Remuneration Committee and senior independent Director. Member of the Audit Committee and Nomination Committee.

[3] Chairman of the Audit Committee. Member of the Remuneration Committee and Nomination Committee.

Biographical details of the Directors are shown on page 17.

David Callear will retire by rotation, in accordance with the Articles at the forthcoming AGM and, being eligible, will offer himself for re-election.

Corporate Governance

Details of the Corporate Governance arrangements are provided on pages 22 to 25.

Directors' interests

Directors' interests are detailed in the Directors' Remuneration Report on pages 28 to 32.

Directors' third party indemnity provisions

A qualifying third party indemnity provision as defined in section 234 of the Companies Act 2006 was in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law throughout the year and at the year end. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed on page 19 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Directors' Report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- in accordance with Section 418, in the case of each Director in office at the date the Directors' Report is approved, that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Employee involvement

The Group has a policy of providing employees with information through corporate newsletters and regular meetings, which are held between management and employees. In addition, the operation of an employee suggestion scheme facilitates a two-way flow of information and ideas. During the year, a staff satisfaction survey was conducted, involving all staff across the whole Group, to which there was an 81% response rate. The results and the high response rate were pleasing given that the business has gone through a lot of change. The overall indication was that employees had a good level of business awareness and welcomed continual improvements to employee communications and more information on current issues such as CSR. The Directors fully support alternative ways to engage with employees and will make available to all employees, the Group's CSR Review (further details on pages 14 to 16).

A "Supplier Day" is hosted annually which provides an opportunity for relevant employees to meet with the Group's key suppliers and for the suppliers to showcase the new products included in the Group's catalogues.

The Group operates a long term incentive scheme for executive Directors and senior managers. Details are included in the Directors' Remuneration Report on pages 28 to 32.

The Group also has Save As You Earn (SAYE) schemes under which employees are granted an option to purchase Ordinary shares in the Company in either three or five years time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise. The initial schemes launched in 2004 and 2005 have an exercise price above the current market price. No further options have been granted under the SAYE scheme since the 2008 launch. Details of the executive Directors' participation are included in the Directors' Remuneration Report on pages 28 to 32.

A low cost dealing service is available to employees which provides a simple way of buying or selling o2o shares. Details of this service are available on the Company's website.

Employee benefit trust (EBT)

As at 31 December 2009, the total number of Ordinary shares held by the EBT was 514,348 (1.42% of the issued Ordinary share capital of the Company (2008: 582,295 (1.60%))). The reduction in shares held was due to the exercise of options over shares by a number of employees, under the Group's performance share plan. Whilst held in trust, the shares do not attract any payment of dividends. Although the trustee may exercise his right to vote in respect of any shares held within the trust from time to time, this right is typically waived.

Equal opportunities

The Group is fully committed to a policy that provides all employees irrespective of background or disability, with equality of opportunity for employment, training, career development and selection on the basis of ability, qualifications and suitability for the job. Executive Directors, managers and employees are required to promote equality of opportunity and to take full account of the policy in their day-to-day work. The aim is to recruit the most appropriate and qualified staff in the industry and the Group is committed to the principle of maximising every employees' potential. In selecting, training and

promoting staff, the Group has to take account of the physically demanding nature of much of its work. Employees who become disabled will be retained and re-trained, where possible.

Health and safety

o2o is committed to maintaining the health, safety and welfare of its employees. Details of the Group's health and safety activities are given on page 14 of the CSR Statement.

Creditor payment policy

It is the Group's policy to negotiate, with each of its principal suppliers, terms of trade appropriate to the business and to operate within those terms of trade once agreed. Trade payable days based on the year end figures are 79 (2008: 77 days) for the Group. The Company has no trade payables (2008: nil).

Environmental policy

The Group ensures that, in satisfying its customers' requirements, both the goods and services supplied and its own housekeeping comply with legislation and best practice. The Group continually reviews its environmental performance across the business. Further details of the Group's environmental policies are provided on page 16 of the CSR Statement.

Corporate and social responsibility

A summary report on the Group policies and objectives in respect of CSR is set out on pages 14 to 16.

Principal risks and uncertainties

Group operations expose o2o to a variety of financial and other risks, a review of which is provided in the Business and Financial Review on pages 12 to 13. The Board has delegated the responsibility for monitoring financial risk management to the Audit Committee.

Requirements of the Takeover Directive

The following are disclosed in accordance with the requirements of the Takeover Directive:

- the Company's authorised share capital is £500,000 divided into 50,000,000 Ordinary shares of 1 pence each. All shares have uniform rights except where referred to below;
- there are no restrictions on the transfers of securities in the Company including limitations on the holdings of securities and requirements to obtain the approval of the Company or of other holders prior to a transfer of securities;
- there are no restrictions on voting rights, however, for those shares held in the EBT, as referred to on page 20, the trustee typically waives his right to vote;
- the Directors are not aware of any agreements between holders of the Company's securities that may result in restrictions on the transfer of securities or on voting rights;
- the Directors' beneficial interests are disclosed on page 31 of the Directors' Remuneration Report. None of the Directors' interests carry special rights with regards to control of the Company;
- details of the Group employees' share save scheme are given on page 20;
- procedures for appointment to the Board are included on the Company's website (www.office2office.co.uk) under Nomination Committee - Terms of reference;
- Shareholder approval by special resolution is required before any changes are made to the Articles;
- the Directors have authority to allot Ordinary shares of the Company, disapply pre-emption rights and make market purchases of Ordinary shares of the Company. Details of these authorities and their limitations are provided on page 19;
- the terms of the Company's committed borrowing facilities contain a change of control clause following a takeover bid that requires mandatory repayment of all outstanding monies and accrued interest. The Company does not have any other significant arrangements that contain change of control clauses; and
- there are no provisions for compensation for loss of office or employment in the agreements with Directors and employees, other than contractual provisions in respect of notice periods.

Independent auditors

The Audit Committee has considered and recommends the re-appointment of PricewaterhouseCoopers LLP (PwC) as auditors. A resolution proposing their re-appointment will be put to the forthcoming AGM.

For and on behalf of the Board

D Rodwell

Company Secretary

24 March 2010

Corporate Governance Statement

Statement of compliance with the Combined Code 2008

The Combined Code on Corporate Governance issued in June 2008 (the Combined Code) sets out standards of good corporate governance. The Combined Code is publicly available on the Financial Reporting Council's website www.frc.org.uk.

The Directors consider that the Company has fully complied with the principles set out in section 1 of the Combined Code throughout the period and the application of these principles with respect to the composition and operation of the Board, the remuneration of the Directors, shareholder relationships and procedures for financial reporting and internal control are described below.

Directors and the Board

The Board comprises the Chairman, Chief Executive, Finance Director and two non-executive Directors.

The Chairman is responsible for leading the Board and ensuring there is timely and effective communication to and between all Board members. He ensures that Board decisions are made after taking into consideration the interests of all stakeholders. The Chief Executive, supported by the senior management team, is responsible for the day-to-day management of the Group and, once agreed by the Board as a whole, the development and implementation of strategy. He sets the objectives to ensure the successful delivery of targets and allocates decision-making and responsibilities accordingly. The normal segregation of responsibilities between the Chairman and the Chief Executive has been set out in writing and approved by the Board. The Chairman's other main commitments are disclosed on page 17. A statement of Directors' responsibilities is given on page 19 of the Directors' Report. The respective responsibilities of directors and auditors are given on page 33 of the Independent Auditors' report to the members of office2office plc.

The non-executive Directors are free from any business or other relationship which could materially interfere with the exercise of their judgement and have no involvement with the day-to-day management of the Group. The Board considers both non-executive Directors to be independent and feels that their diverse experience and background bring a depth of debate and alternative viewpoint to the Board. Jim Cohen is the senior independent non-executive Director. The terms and conditions of the non-executive Directors' appointments are available on request from the Company's registered office.

The Board operates formally through agenda-driven Board meetings, which are normally held on a monthly basis, usually at the Company's head office. Meetings are occasionally convened at the Group's other locations and this provides the non-executive Directors with an opportunity to assess the operations at first hand. In 2009, the Board toured the Swindon premises of AccessPlus and Accord. The monthly agenda covers both operational and strategic matters, however, separate strategy days were also held on two occasions during the year to cover longer term considerations without the distraction of the day-to-day operational matters.

Frequent informal dialogue between the Directors supplements the formal Board meetings. On a number of occasions during the year, the Chairman met with the non-executive Directors without the executive Directors present to discuss the performance of individual executive Directors and other senior managers. The non-executive Directors also met without the Chairman being present to discuss his performance.

The Board undertakes a critical evaluation of itself and its committees on an annual basis. In December 2009, a performance evaluation questionnaire was circulated to each Director to complete. The questionnaire comprised of a series of statements, which required a rating between "strongly disagree" to "strongly agree" and invited individual comment. The results were discussed with the Board in January 2010. These indicated that the Board had a united view of the Group's strategy and that alignment with shareholder interests remains a key consideration in decision-making. There was strong agreement that, as a small Board, its structure and composition were appropriate and the culture and dynamics worked well thereby aiding efficient decision-making. However, it was recognised that these factors should be periodically assessed by the Nomination Committee to ensure that the Board continues to meet the requirements of the Group. It was also recognised that the quality and effectiveness of senior management should also be subject to regular review not only to ensure the Group is well managed but also to help with succession planning. Of immediate focus is the Nomination Committee's specification of and recruitment for the Internal Operations Audit role. It was acknowledged that the Board is well led by the Chairman and there were no issues with his performance. Similarly, there were no specific issues with regards to the performance of the Board Committees.

The Board is responsible to shareholders for the management and control of the Group's activities, its strategic objectives, its system of corporate governance and the stewardship of its resources. This is achieved by regular review of the key activities of the Group through the monthly management accounts, detailed reports and presentations. A Board pack comprising information to be reviewed and discussed is forwarded to all Board members in advance of the monthly meetings to allow the Directors to be fully prepared. On a daily basis, the Directors receive a summary of the previous day's sales, with cumulative monthly figures and budget comparison. Given the current economic climate, the Board has also received regular detailed reports on the Company's funding and

liquidity position. Analyst and broker reports are circulated on release and the Board is updated on any movements in major shareholdings. There is a formal schedule of matters reserved for consideration and approval by the Board and specific responsibilities have been delegated to Board committees as described below.

The Company Secretary reports to the Board and advises individual Directors as required on Board procedures and corporate governance matters. A procedure also exists for Directors to take independent professional advice at the Company's expense.

Under the Companies Act 2006, Directors must avoid any situations in which they have or could have a direct or indirect interest that conflicts with Company interests. The Articles provide the Board with the authority to approve any such conflict, as appropriate.

The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Articles in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has provided letters of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. These indemnities were independently assessed as being in line with market practice. The Company also maintains appropriate Directors' and Officers' liability insurance. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

In 2008, the Board was faced with balancing its strategic decision to grow and diversify the Group, through the acquisition of AccessPlus and Accord, with the need to restructure and reorganise the Group following the withdrawal from the Ministry of Defence contract in 2007, and also to mitigate the economic uncertainties that began to unfold in the second half of 2008.

In 2009, the Board supported further efficiency drives to right-size the business not only to meet the challenges of a recession, but also to be in a strong position at the start of any economic recovery. Maintaining shareholder interest with an attractive dividend yield was balanced by a keen focus on funding and liquidity. The Board has continued to follow developments in the markets and industry and dedicated two separate strategy days to consider the potential opportunities for the Group.

As in previous years, the Board has kept abreast of operational matters via formal presentations and informal meetings with senior management. The Board feels that this not only improves communications, both in and out of the boardroom, but also helps in its understanding of the business. In turn, the Board has ensured that all employees are informed of the strategic and operational developments via the Chief Executive's quarterly newsletter and regular email. The Board is also kept up-to-date with changes in the regulatory environment via the Company Secretary and the Company's external advisors.

In accordance with the Articles, no more than one third of the Directors are required to retire at each AGM and all Directors are required to submit themselves for re-election at least once every three years. Accordingly, David Callear will offer himself for re-election at the next AGM.

Going concern

The Group has net current liabilities as at 31 December 2009. The Group has traded profitably since the balance sheet date with the profits generated contributing to the funding of the Group's working capital requirements. In addition, the Group meets its day-to-day working capital requirements through sufficient and appropriate credit facilities that are committed until April 2013. The Group's forecasts indicate that it is able to operate within the level of its current facilities for the foreseeable future. Accordingly, the Directors, having made appropriate enquiries, consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements.

Committees of the Board

Specific responsibilities are delegated to sub-committees of the Board. The composition of these sub-committees is provided below together with reference to reports on their activities. All other decisions are taken collectively by the Board.

The **Nomination Committee** is responsible for reviewing the size, structure and composition of the Board and making recommendations to the Board if it considers that any changes are required. It keeps succession plans under review and has a formal procedure for appointments to the Board and senior management team. The Nomination Committee includes both independent non-executive Directors and is chaired by David Callear. A report on its activities is given on page 26.

The **Remuneration Committee** reviews and makes recommendations on the Group's overall remuneration policy, including individual remuneration packages for executive Directors, the Chairman and senior management. It is also responsible for the review of the Company's share schemes and senior incentive plans. The Remuneration Committee, which is chaired by Jim Cohen, comprises the independent non-executive Directors and David Callear. When necessary, non-committee members are invited to attend by prior arrangement. A report on its activities is given on page 28.

The **Audit Committee** assists the Board in discharging its responsibilities effectively for financial reporting, risk review and internal control. It comprises the independent non-executive Directors and

Corporate Governance Statement continued

Attendance at meetings

The number of full Board meetings and committee meetings attended by each Director in 2009 was as follows:

	Full Board		Remuneration Committee		Audit Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Chairman								
D J Callear	11	11	4	4	4	4*	1	1
Executive Directors								
S R Moate	11	11	4	1*	4	4*	1	1*
M A Cunningham	11	11	4	1*	4	4*	1	1*
Non-executive Directors								
J L Cohen**	11	11	4	4	4	4	1	1
C M Batterham	11	11	4	4	4	4	1	1

* By invitation
** Senior independent non-executive Director

is chaired by Chris Batterham, who is a Chartered Accountant and has relevant financial expertise, as described in his biography on page 17. Non-committee members and the external auditors are invited to attend by prior arrangement. A report on its activities is given on page 27.

As Board packs are issued in advance of the Board meetings, all Directors are kept informed of the matters to be discussed and have the opportunity to make their views known to the Chairman prior to the meeting if they are unable to attend. Minutes of meetings are circulated to the respective members of the Board or committees.

Directors' remuneration

The Directors' Remuneration Report on pages 28 to 32 includes details of remuneration policies and the remuneration of Directors.

Relationship with shareholders

The Board, led by the Chairman, recognises the importance of effective communication and accountability to all shareholders and is kept informed of their views through frequent contact with the house-brokers and feedback from direct communications with, and presentations to, institutional investors and fund managers.

Each shareholder receives the annual report and financial statements containing the full year results and an interim report on the half year results. Following the announcement of results, presentations are given to the investment community in London and Edinburgh. The full year and half year reports and presentations are made available on the Company's website (www.office2office.co.uk). Additionally, and in accordance with the Disclosure and Transparency Rules, interim management statements were released via the RNS news service in April and October 2009.

The Company's AGM takes place in Norwich and formal notification, together with the annual report and financial statements, is sent to shareholders at least 20 working days in advance of the meeting. All Board members are available, formally during the AGM and informally afterwards, for questions. Each item of business is the subject of a separate resolution. The collection and analysis of the proxy votes is handled independently by the Company's registrars. The Chairman announces the results of the proxy votes after shareholders have voted on a show of hands. These results are also made available on the Company's website. Details of the 2010 AGM are set out in the notice of the meeting enclosed with this report.

The Chairman and the senior independent Director are available to shareholders on all matters relating to governance and strategy. All members of the Board may be contacted through the Company's website.

Internal control

The Board has overall responsibility for the Group's system of internal control and delegates the annual review of internal control processes and their effectiveness to the Audit Committee. The internal control systems are designed to meet the Group's needs and address the risks to which it is exposed. Such systems mitigate, rather than eliminate, the risks faced by the business and can only provide reasonable and not absolute assurance against material mis-statement or loss. Necessary actions are taken to remedy any significant failings or weaknesses as they are identified when the Board reviews the effectiveness of the system of internal control.

The key elements of the Group's procedures and internal financial control framework are:

- the close involvement of the executive Directors in all aspects of

the day-to-day operations, including regular meetings with senior staff from across the Group and a review of the monthly operational reports compiled by senior management;

- clearly defined responsibilities and limits of authority. The Board has responsibility for strategy and has adopted a schedule of matters which are required to be brought to it for decision;
- a comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board;
- Group management accounts are prepared monthly and submitted to the Board for review. Variances from budget and prior year are closely monitored and explanations are provided for significant variances. Detailed expense reports with comparisons against budget are issued monthly to cost centre managers to assist in cost control;
- a continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas; and
- an annual review of insurance cover for the Group including a review of disaster recovery plans for IT and the warehouses. The significant risks facing the business are considered to be the loss of a large customer or a major interruption of warehouse operations or IT services.

This process is in accordance with the Turnbull guidance and has been in place throughout the year under review and up to the date of approval of the annual report and financial statements.

Corporate social responsibility (CSR)

Measures to ensure responsible business conduct and the identification and assessment of risks associated with social, ethical and environmental matters are managed in conjunction with all other business risks and reviewed at regular meetings of the Board and senior management.

In 2009, the Company launched a new CSR initiative entitled 'Good for you, good for us, good for everyone' which aims to combine added value for customers with tangible benefits for the business and the environment. A dedicated brochure, explaining what CSR means to o2o and its people, setting out the Group's achievements to date and its objectives going forward, has been developed and is published under separate cover.

A summary report on the Group's policies and objectives for CSR is set out on pages 14 to 16.

D Rodwell

Company Secretary

24 March 2010

Nomination Committee Report

Role of the Nomination Committee

The Nomination Committee is a sub-committee of the Board, responsible for all appointments to the Board, giving full consideration to succession plans and the leadership of the Group. It makes recommendations to the Board for any changes to the Board and its committees that it considers necessary and also reviews the senior management structure. The Committee has a formal procedure for appointments to the Board and senior management team, which is available, together with the Committee's terms of reference, on the Company's website (www.office2office.co.uk).

Composition of the Nomination Committee

The Nomination Committee comprises the Chairman and the independent non-executive Directors. The Company Secretary is secretary to the Nomination Committee. The Committee meets to deal with assignments in accordance with Company needs and best practice in corporate governance.

Main activities of the Nomination Committee

Although there were no new appointments to either the Board or senior management during the year, the Committee met to consider requirements for the year ahead and, in particular, the renewal of contracts for David Callear and Jim Cohen. Both Directors are currently serving their second three-year term since the Company's shares were admitted for trading on the main market of the London Stock Exchange in June 2004, and these come to an end in June 2010. In accordance with Article A.7.2 of the Combined Code and the Committee's own procedures, re-appointment for a third term should be discussed well in advance and take into account the need for progressive refreshment of the Board. It was recognised that the executive and non-executive element of the Board had been refreshed in 2007 and 2008 with the appointment of Simon Moate and Chris Batterham respectively and, for such a small Board, there should be a balance with the experience of longer-serving members. The annual Board performance assessment, which was discussed at the January 2010 Board meeting, indicated strong accord with the current size, composition, structure and dynamics of the Board. As such, the Committee and the Board fully supported David Callear's and Jim Cohen's intention to serve a third three-year term. Succession planning, not only for the Board but also at a senior level, will be continually assessed, the Committee's immediate focus being the specification of and recruitment for, the Internal Operations Audit role.

D J Callear

Chairman of the Nomination Committee

24 March 2010

Audit Committee Report

Role of the Audit Committee

The Audit Committee is a sub-committee of the Board and its responsibilities include:

- reviewing the interim report, the annual report and accounts, results announcements of the Group and any other formal announcements relating to the Group's financial performance and recommending them to the Board for approval;
- reviewing the Group's systems of internal financial control, risk management policies and procedures;
- monitoring and reviewing the requirement for an internal audit function;
- considering the appointment of the external auditors, overseeing the process for their selection and making recommendations to the Board in relation to their appointment;
- monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, their remuneration and considering their reports on the Group's accounts and systems of internal financial control and risk management; and
- monitoring the Group's whistle-blowing procedures.

Composition of the Audit Committee

The Audit Committee comprises of Chris Batterham and Jim Cohen. Their biographical details are included on page 17 and their remuneration on page 30. Chris Batterham, Chairman of the Audit Committee, is a Chartered Accountant. Non-committee members and the Company's external auditors are invited to attend meetings as and when appropriate. At least once each year, representatives of PwC meet the Audit Committee without any executive Directors being present. The Company Secretary is secretary to the Audit Committee. The Committee's terms of

reference are available on the Company's website (www.office2office.co.uk).

Main activities of the Audit Committee

The Audit Committee met on four occasions in 2009 with other Board members and the auditors attending as required. Three of these meetings were to review the financial results, full-year and half-year, prior to recommending them to the Board for approval. The Committee also reviewed the results announcements and presentations to investors and received reports from the external auditors on their work. In December 2009, the Committee met PwC who set out their audit approach and procedures, including matters relating to scope, auditor independence and fees for the full year audit. At the same meeting, the Committee reviewed the whistle-blowing policy and the requirement for Internal Audit.

Review of risk management and internal control

The risk register profiles the Group's risk, after taking into account any mitigating controls, based on likelihood of occurrence and impact on the business. The main risks are set out on pages 12 to 13 of the Business and Financial Review.

At the end of November 2009, the Committee reviewed the latest risk register. Specific areas were being targeted for a review of controls including customer service processes, the online2office facility and contract approval. In addition, disaster recovery plans for the Head Office were also being updated. The conclusions will be presented to the Committee in 2010.

The Committee also reviewed the resource available within the finance function, not only in respect of managing the day-to-day requirements of the business and the financial reporting process but also with regards to acquisition activity. Whilst the current capabilities are generally adequate, the timing of events, has stretched existing resource and, accordingly, the Committee will continue to assess this as requirements change.

Internal operations audit function

o2o is now of a size and structure that requires a dedicated approach to providing assurance on risk and control. The search to find a candidate with the requisite skills and experience has proven difficult although the position was temporarily filled in the last quarter of 2009. In recognition that this is a senior role, the Nomination Committee is focused on the specification and recruitment of an Internal Operations Auditor.

Review of whistle-blowing policy

No concerns were reported in the year and following a review of the policy, the Committee did not consider any changes were necessary. The policy is available on the Company's website (www.office2office.co.uk).

Independence of external auditors

PwC have been the Company's auditors since 2002. The Audit Committee is satisfied with their effectiveness and independence and has not considered it necessary to require an independent tender process. The Committee validates this, and therefore its recommendation to the Board with regards to appointment and reappointment, formally by:

- assessing their performance on an annual basis through meetings with key personnel;
- monitoring their independence and objectivity by reviewing their relationship with the Group and ensuring Group policy is followed in relation to the provision of non-audit services; and
- reviewing anticipated future service requirements and assessing their ability to meet the requirement by seeking opportunity to challenge, question and confirm the new service proposition.

The Committee meets with the external auditors to review and approve audit scope and fees and obtain written confirmation of their independence. Following the audit, the Committee meets with PwC without the executive Directors being present and also discusses the efficiency of the audit process with the executive Directors.

Group policy on the provision of non-audit services requires that, other than for corporate taxation services, approval is sought from the Committee in advance of any engagement. The Committee will consider, taking into account the scope of the work and level of fees involved, whether the provision of such non-audit services impairs the independence and objectivity of PwC.

C M Batterham

Chairman of the Audit Committee

24 March 2010

Directors' Remuneration Report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. It outlines the membership and workings of the Remuneration Committee, together with details of Directors' remuneration in respect of the year ended 31 December 2009. In accordance with the Regulations, a resolution to approve this report will be proposed at the forthcoming AGM.

Remuneration Committee and its terms of reference

The Remuneration Committee is a sub-committee of the Board and membership comprises Jim Cohen, Chris Batterham and David Callear, all of whom are independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The Chairman of the Remuneration Committee is Jim Cohen. Committee members are excused from meetings where matters concerning themselves are discussed. When necessary, non-committee members are invited to attend by prior arrangement. The Committee met four times in the year.

The principal function of the Committee is to make recommendations to the Board regarding the Company's policy on the remuneration, benefits and terms of employment of the executive Directors and the Chairman of the Company. In addition, the Committee assists the Board in ensuring that the Group's executive management are recruited, developed and remunerated in an appropriate fashion. In determining remuneration packages and policies, due regard is given to any legal requirements, the provisions of the Combined Code (2008), the Listing Rules of the Financial Services Authority and the Directors' Remuneration Report Regulations 2002. The Committee uses Hewitt New Bridge Street Consultants LLP and Macfarlanes LLP as its professional advisers on executive remuneration and employee share schemes.

The Committee's terms of reference are available on the Company's website (www.office2office.co.uk).

Executive Directors' remuneration

Remuneration policy in respect of executive Directors is designed to ensure that the Group achieves its potential and increases shareholder value. In respect of basic salary, the objective is to ensure that the Group attracts and retains high calibre executives with the skills, experience and motivation necessary to direct and manage the affairs of the Group. Annual bonuses and long term incentive schemes are seen as an important part of each Director's total remuneration and are designed to drive and reward exceptional performance.

The current remuneration package of the executive Directors consists of basic salary, annual bonus, long term incentive schemes, taxable benefits, SAYE option schemes and pension arrangements. These are described in more detail below.

The executive Directors' basic salaries are reviewed annually by the Committee, taking into account the performance of the individual, changes in their responsibilities, the Group's performance against financial objectives and, when deemed appropriate, information from independent remuneration consultants' sources on levels of salary for similar jobs. In line with the pay freeze across the Group, the executive Directors did not receive any increase in their basic salaries in 2009. However, having achieved financial results in line with market expectations despite the challenging economic conditions and, as a result of restructuring, putting the business in a strong starting position for 2010, the Committee wishes to ensure the executive Directors remain suitably rewarded and are considering salary increases early in the current year.

Each year the Committee reviews the bonus arrangements and may recommend different targets or performance conditions to keep the objectives aligned with shareholder interests.

The 2009 cash bonus scheme was designed to drive a unified effort across the Group's various functions to deliver efficiencies and good performance. Accordingly, the cash bonus scheme for the executive Directors scheme was similar to that for senior management. The maximum bonus potential for all participants was 60% of basic salary and was based upon the achievement of personal, divisional and Group profit targets. Consequently, Simon Moate and Mark Cunningham were awarded bonuses equivalent to 30% and 28% of basic salary, respectively. Simon Moate has elected to take part of his award to the value of £31,500, in shares at market value rather than cash. The bonuses, details of which are on page 30, will be paid in March 2010.

In view of the aims for 2010 referred to in the Chairman's Statement, the cash bonus scheme for the executive Directors has been designed to reward growth in underlying earnings per share and management of net debt. Simon Moate's and Mark Cunningham's bonus potential will be 100% and 60% of basic salary, respectively.

Pension contributions of up to 10% of basic salary were made to the personal pension schemes of the executive Directors.

The service agreements for the executive Directors are on a rolling basis and terminable on 12 month's notice by either party, with the right for the Company to make a payment in lieu of salary and benefits, excluding bonus, for any unexpired period of notice.

Save as you earn share option scheme (SAYE)

The Group operates an HMRC approved SAYE scheme open to all employees and in which both executive Directors participate. Details are provided on page 32.

Long term incentive plans

The Company currently operates a long term incentive plan, the Performance Share Plan (PSP), as detailed below. The Company also has a Deferred Share Bonus Plan (DSBP) which has been inactive since inception. Both these plans were approved by shareholders in November 2005 following a review by an independent adviser and consultation

with shareholders and the ABI. In line with ABI guidelines, awards granted under this plan are subject to dilution limits.

Performance Share Plan

The PSP rules allow awards over Ordinary shares, subject to performance criteria as detailed below and vesting in three years, to be made to individuals in any year of a value of up to 100% of basic salary. In exceptional circumstances, the Remuneration Committee has discretion to increase the award to up to 200% of basic salary. In accordance with the scheme rules, the number of Ordinary shares awarded are calculated by reference to the three day average of the closing mid-market quotation of the Company's share price prior to the award date. The exercise price of options under the PSP scheme is 0.1p per share.

The PSP will reward participants by reference to performance criteria based on (i) a comparative measure of total shareholder return (TSR) against the companies in the FTSE Small Cap Index and (ii) the Company's earnings per share (EPS) growth. For awards made to the executive Directors to date, these criteria have had equal weighting. The combined use of TSR and EPS targets is intended to incentivise participants to deliver substantial real earnings growth in addition to generating above market returns for shareholders.

The portion of any award based on TSR will, other than as discussed below, vest 25% for median performance, with full vesting at the upper quartile level (and the proportion vesting increasing on a straight-line basis between these points). TSR will be measured over a three year performance period.

The balance of the award will be based on the Company's EPS growth. For awards granted in 2005 and 2006, this part of the award will vest 25% if EPS grows by an average of 4% per annum more than the increase in RPI over a three year performance period. If EPS grows by an average of 15% per annum more than the increase in RPI over the period, this portion of the award will vest in full.

The PSP award granted to Simon Moate, on joining the Company in 2007, was an enhanced award. That portion based on TSR will vest 40% for median performance with full vesting at the upper quartile. That portion based on EPS will vest 50% if EPS grows by an average of 4% per annum more than the increase in RPI over a three year performance period. If EPS grows by an average of 8% per annum more than the increase in RPI over the same period, this portion of the award will vest in full.

Having consulted with the major institutional investors, the ABI and Research Recommendations and Electronic Voting (RREV) in November 2007, the Remuneration Committee reassessed the performance conditions to provide a common incentive to the senior management team. Accordingly, for the PSP awards granted in April 2008, that portion based on EPS will vest 50% if EPS grows by an average of 4% per annum more than the increase in RPI over a three year performance period. If EPS grows by an average of 8% per annum more than the increase in RPI over the same period, this portion of the award will vest in full.

For EPS growth between the lower and upper levels quoted above, the proportion vesting will increase on a straight-line basis. EPS growth will be measured over a three year period.

Mark Cunningham was granted an award over 188,113 Ordinary shares in April 2008, based on an average share price of 168.75p. The initial tranche of awards granted to him in December 2005 vested in December 2008 to the extent that, over the three year period, an EPS growth of 28.12% had been achieved. This equated to 36.4% of the award under the EPS element vesting and consequently 2,987 shares were transferred to Mark Cunningham in 2009. No awards vested under the TSR element. The second tranche of awards granted in April 2006 have lapsed completely however, as neither the EPS nor the TSR performance targets were achieved.

Simon Moate currently holds awards over 527,012 Ordinary shares following grants made in September 2007, April 2008 and March 2009 based on an average share price of 189.0p, 168.75p and 82.5p respectively. The award granted to him in September 2007 will vest, subject to satisfying conditions in the PSP scheme rules, in September 2010 as over the three year period an EPS growth of 20.7% has been achieved. This equates to 52.4% (61,022 shares) of the award under the EPS element. No awards vested under the TSR element. Further details of the awards are given on page 31 and in note 26 to the financial statements.

In the event of a takeover, all awards granted under the PSP vest or become exercisable to the extent that the performance targets have been achieved, as determined by the Remuneration Committee. In the event of a re-organisation the awards may be exchanged for options over shares in the new holding company on such terms determined by the Committee.

Chairman and non-executive Directors

David Callear's and Jim Cohen's three year service agreements expire on 28 June 2010 and both have indicated that they will consider re-appointment for a third three year term. For David Callear, this will be conditional to his re-election by shareholders at the forthcoming AGM where he retires by rotation. Chris Batterham's three year service agreement ends on 26 June 2011. All of these service agreements are terminable on three months' notice by either the Company or the relevant Director. The Chairman's and non-executive Directors' remuneration is non-pensionable.

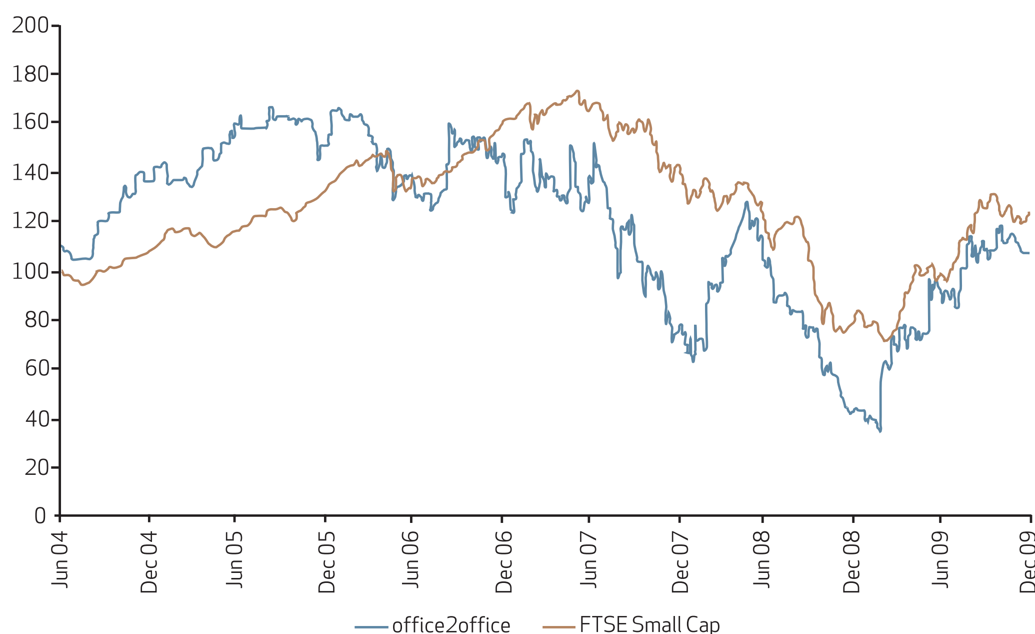
The remuneration of the non-executive Directors is determined by the Chairman and the executive Directors and the remuneration of the Chairman is determined by the Remuneration Committee. There was no increase to their remuneration in 2009.

The Chairman and non-executive Directors are not eligible to participate in any of the Company's share option or Group bonus schemes.

Directors' Remuneration Report continued

Performance graph

The graph below shows o2o's total shareholder return performance compared to the FTSE Small Cap index, of which o2o was, until 17 December 2007, a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of Ordinary shares in o2o and in the index from flotation to 31 December 2009.



Directors' remuneration earned in 2009 - audited

The emoluments of the Directors (excluding pension contributions) are shown below:

	2009 Salary /fees £000	2009 Allowances and benefits in kind £000	2009 Annual bonus £000	2009 Total £000	2008 Total £000
Chairman					
D J Callear	125	-	-	125	139
Executive					
M A Cunningham	170	13	48	231	182
S R Moate	265	11	80	356	266
Subtotal	435	24	128	587	448
Non-executive					
J L Cohen	50	-	-	50	56
C M Batterham (appointed June 2008)	50	-	-	50	25
P M Bertram (resigned April 2008)	-	-	-	-	18
Subtotal	100	-	-	100	99
Total	660	24	128	812	686

£31,500 of S R Moate's annual bonus will be paid in shares issued at market value.

Other allowances and benefits in kind provided to executive Directors comprise car benefits, family private health care, permanent health insurance and life assurance at the rate of four times annual salary.

No amounts have been waived in the current or prior year.

Directors' pensions audited

Pension contributions reflect amounts payable to defined contribution personal pension schemes.

The contributions payable to personal pension schemes in the year are shown below:

	Pension contributions 2009 £000	2008 £000
M A Cunningham	**17**	16
S R Moate	**27**	24
	44	40

Directors' interests unaudited

The beneficial interests of the Directors and their immediate families in the share capital of o2o at the year end are set out below:

	Number of Ordinary shares 2009	2008
D J Callear	**450,991**	350,991
M A Cunningham	**1,089,549**	1,086,562
S R Moate	**28,345**	11,000
J L Cohen	**38,506**	-
C M Batterham	**7,516**	-
	1,614,907	1,448,553

There have been no changes in the Directors' interests between 31 December 2009 and the date of this report.

No Director had any material interest in any contract of significance with the Group during the period under review. The Directors confirm that they have not given any pledges of o2o shares.

Long term incentive plans – audited

Awards granted to Directors under the PSP were as follows:

	1 Jan 09	Granted	Exercised	Lapsed	31 Dec 09	Exercise price per share	Exercisable from	Expiry date
M A Cunningham								
2005 PSP Award	2,987	-	2,987	-	**-**	0.1p	21.12.08	21.06.09
2006 PSP Award	21,605	-	-	21,605	**-**	0.1p	24.04.09	24.10.09
2008 PSP Award	188,113	-	-	-	**188,113**	0.1p	24.04.11	24.10.11
	212,705	-	2,987	21,605	**188,113**			
S R Moate								
2007 PSP Award	232,907	-	-	-	**232,907**	0.1p	11.09.10	11.03.11
2008 PSP Award	133,499	-	-	-	**133,499**	0.1p	24.04.11	24.10.11
2009 PSP Award	-	160,606	-	-	**160,606**	0.1p	04.03.12	04.09.12
	366,406	160,606	-	-	**527,012**			

The awards granted during the year were made on 4 March 2009. The market price of Ordinary shares at the date of grant was 93p.

Beneficial options granted to Directors under the SAYE scheme were as follows:

	1 Jan 09	Granted	Exercised	Lapsed	**31 Dec 09**	Exercise price per share	Exercisable from	Expiry date
M A Cunningham	8,039	-	-	-	**8,039**	119.4p	01.05.11	30.11.11
S R Moate	14,069	-	-	-	**14,069**	119.4p	01.05.13	30.11.13

The closing market price of Ordinary shares at 31 December 2009 was 145.5p. The shares traded in the range 52.25p to 160.0p during the year.

The details and the performance criteria in respect of the above schemes are discussed on pages 28 to 29.

J L Cohen

Chairman of the Remuneration Committee

24 March 2010

Independent Auditors' Report to the members of office2office plc

We have audited the financial statements of office2office plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated statement of changes in equity, the Company statement of changes in equity, the consolidated and Company cash flow statements, the significant accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on pages 19 to 20), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2009 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited 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; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 19 to 20, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Christopher Maw

(Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Norwich

24 March 2010

The maintenance and integrity of the office2office website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Revenue	3	**187,464**	180,999
Cost of sales	4	**(129,959)**	(124,168)
Gross profit		**57,505**	56,831
Distribution costs	4	**(19,040)**	(20,082)
Administrative expenses	4	**(29,486)**	(25,783)
Operating profit		**8,979**	10,966
Finance income		**-**	190
Finance costs		**(856)**	(1,549)
Finance costs - net	8	**(856)**	(1,359)
Profit before income tax		**8,123**	9,607
Analysed as:			
Underlying profit before income tax*		**13,130**	12,066
Share option expense	26	**(363)**	(23)
Exceptional and non-recurring costs	5	**(3,645)**	(1,812)
Amortisation of intangibles	12	**(999)**	(624)
Profit before income tax	3	**8,123**	9,607
Income tax expense	9	**(1,789)**	(2,995)
Profit for the year		**6,334**	6,612
Profit attributable to:			
Owners of the Company	27	**6,138**	6,612
Minority interest	27	**196**	-
		6,334	6,612
Earnings per Ordinary share attributable to owners of the Company			
Basic	11	**17.2p**	18.5p
Diluted	11	**17.1p**	18.5p

**Profit before income tax, exceptional and non-recurring costs, amortisation of intangibles and share option expense.*

The Company has elected to take exemption under section 408 of the Companies Act 2006 not to present the Company's income statement or statement of comprehensive income. The profit for the Company was £4,103,000 (2008: £4,276,000).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 £000	2008 £000
Profit for the year	**6,334**	6,612
Other comprehensive income:		
Currency translation differences	**(90)**	240
Total comprehensive income for the year net of tax	**6,244**	6,852
Total comprehensive income attributable to:		
Owners of the Company	**6,048**	6,852
Minority interest	**196**	-
Total comprehensive income for the year	**6,244**	6,852

Items in the statement above are disclosed net of tax.

Consolidated and Company Balance Sheets

as at 31 December 2009

	Note	Consolidated 2009 £000	Consolidated 2008* £000	Company 2009 £000	Company 2008 £000
Assets					
Non-current assets					
Intangible assets	12	**58,334**	59,263	**-**	-
Property, plant and equipment	13	**3,427**	2,599	**-**	-
Investments in subsidiaries	14	**-**	-	**8,068**	7,705
Deferred income tax asset	15	**1,240**	1,197	**-**	-
		63,001	63,059	**8,068**	7,705
Current assets					
Inventories	16	**6,412**	8,371	**-**	-
Trade and other receivables	17	**24,051**	26,713	**9,604**	9,303
Cash and cash equivalents	18	**5,987**	2,691	**1**	159
		36,450	37,775	**9,605**	9,462
Total assets	3	**99,451**	100,834	**17,673**	17,167
Equity					
Capital and reserves attributable to the owners of the Company					
Ordinary shares	25	**363**	363	**363**	363
Share premium account	27	**5,009**	5,009	**5,009**	5,009
Other reserves	27	**196**	286	**-**	-
Retained earnings	27	**17,023**	14,502	**12,276**	11,769
		22,591	20,160	**17,648**	17,141
Equity attributable to minority interest	27	**196**	-	**-**	-
Total equity		**22,787**	20,160	**17,648**	17,141
Non-current liabilities					
Borrowings	20	**23,493**	25,374	**-**	-
Deferred income tax liability	15	**2,197**	2,623	**-**	-
Provisions	23	**2,192**	2,143	**-**	-
Retirement benefit liability	24	**894**	1,044	**-**	-
		28,776	31,184	**-**	-
Current liabilities					
Trade and other payables	19	**36,647**	40,955	**25**	26
Borrowings	20	**10,310**	6,978	**-**	-
Current income tax liabilities	22	**931**	1,557	**-**	-
		47,888	49,490	**25**	26
Total liabilities		**76,664**	80,674	**25**	26
Total equity and liabilities		**99,451**	100,834	**17,673**	17,167

** Restated to reflect fair value adjustments arising on acquisitions made in the period ended 31 December 2008 (note 31). There is no impact on equity.*

The financial statements comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated and Company cash flow statements, the significant accounting policies and the notes to the financial statements were approved for issue by the Board of Directors on 24 March 2010.

D J Callear - Chairman

24 March 2010

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total attributable to owners £000	Minority interest £000	Total equity £000
Balance at 1 January 2009		363	5,009	286	14,502	20,160	-	20,160
Currency translation differences		-	-	(90)	-	(90)	-	(90)
Net income recognised directly in equity		-	-	(90)	-	(90)	-	(90)
Profit for the year		-	-	-	6,138	6,138	196	6,334
Total recognised income for the year ended 31 December 2009		-	-	(90)	6,138	6,048	196	6,244
Employee share options:								
- value of employee services	26	-	-	-	278	278	-	278
- deferred tax on share options		-	-	-	64	64	-	64
Sale of shares by employee benefit trust		-	-	-	10	10	-	10
Dividends:								
- Ordinary shares	10	-	-	-	(3,969)	(3,969)	-	(3,969)
		-	-	(90)	2,521	2,431	196	2,627
Balance at 31 December 2009		**363**	**5,009**	**196**	**17,023**	**22,591**	**196**	**22,787**

	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total attributable to owners £000	Minority interest £000	Total equity £000
Balance at 1 January 2008		363	5,009	46	11,489	16,907	-	16,907
Currency translation differences		-	-	240	-	240	-	240
Net income recognised directly in equity		-	-	240	-	240	-	240
Profit for the year		-	-	-	6,612	6,612	-	6,612
Total recognised income for the year ended 31 December 2008		-	-	240	6,612	6,852	-	6,852
Employee share options:								
- value of employee services	26	-	-	-	45	45	-	45
- deferred tax on share options		-	-	-	(5)	(5)	-	(5)
Sale of shares by employee benefit trust		-	-	-	37	37	-	37
Dividends:								
- Ordinary shares	10	-	-	-	(3,676)	(3,676)	-	(3,676)
		-	-	240	3,013	3,253	-	3,253
Balance at 31 December 2008		**363**	**5,009**	**286**	**14,502**	**20,160**	**-**	**20,160**

Company Statement of Changes in Equity

for the year ended 31 December 2009

	Note	Ordinary shares £000	Share premium account £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009		363	5,009	11,769	17,141
Profit for the year		-	-	4,103	4,103
Total recognised income for the year ended 31 December 2009		-	-	4,103	4,103
Credit to reserves for share based payments	26	-	-	363	363
Sale of shares by employee benefit trust		-	-	10	10
Dividends:					
- Ordinary shares	10	-	-	(3,969)	(3,969)
		-	-	507	507
Balance at 31 December 2009		**363**	**5,009**	**12,276**	**17,648**

	Note	Ordinary shares £000	Share premium account £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008		363	5,009	11,109	16,481
Profit for the year		-	-	4,276	4,276
Total recognised income for the year ended 31 December 2008		-	-	4,276	4,276
Credit to reserves for share based payments	26	-	-	23	23
Sale of shares by employee benefit trust		-	-	37	37
Dividends:					
- Ordinary shares	10	-	-	(3,676)	(3,676)
		-	-	660	660
Balance at 31 December 2008		**363**	**5,009**	**11,769**	**17,141**

Consolidated and Company Cash Flow Statements

for the year ended 31 December 2009

	Note	Consolidated 2009 £000	Consolidated 2008 £000	Company 2009 £000	Company 2008 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	28	**11,685**	5,636	**(302)**	(441)
Interest paid		**(779)**	(1,487)	**-**	-
Interest element of finance lease repayments		**(77)**	(62)	**-**	-
Income tax paid		**(2,820)**	(2,030)	**-**	(38)
Net cash generated from/(used in) operating activities		**8,009**	2,057	**(302)**	(479)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(1,075)**	(279)	**-**	-
Purchase of intangible assets		**(70)**	(28)	**-**	-
Acquisition of subsidiaries, including overdrafts*		**-**	(21,438)	**-**	-
Interest received		**-**	190	**103**	276
Dividends received		**-**	-	**4,000**	4,000
Net cash (used in)/generated from investing activities		**(1,145)**	(21,555)	**4,103**	4,276
Cash flows from financing activities					
Finance lease principal payments		**(337)**	(219)	**-**	-
Increase in borrowings		**-**	25,000	**-**	-
Repayment of borrowings*		**-**	(12,613)	**-**	-
Sale of shares by employee benefit trust		**10**	37	**10**	37
Dividends paid to Company's shareholders	10	**(3,969)**	(3,676)	**(3,969)**	(3,676)
Net cash (used in)/generated from financing activities		**(4,296)**	8,529	**(3,959)**	(3,639)
Net increase/(decrease) in cash and cash equivalents		**2,568**	(10,969)	**(158)**	158
Cash, cash equivalents and bank overdrafts at 1 January	18	**(4,006)**	6,963	**159**	1
Cash, cash equivalents and bank overdrafts at 31 December	18	**(1,438)**	(4,006)	**1**	159

Net debt at 31 December comprises:

	Consolidated 2009 £000	Consolidated 2008 £000	Company 2009 £000	Company 2008 £000
Cash, cash equivalents and bank overdrafts	**(1,438)**	(4,006)	**1**	159
Finance leases	**(1,378)**	(655)	**-**	-
Bank loans	**(25,000)**	(25,000)	**-**	-
Net debt at 31 December	**(27,816)**	(29,661)	**1**	159

**Net cash outflow from acquisition of subsidiaries which comprises the cost of the acquisitions, bank overdrafts and loans was nil (2008: £34,051,000).*

Significant Accounting Policies for the year ended 31 December 2009

General information

office2office plc (the Company) and its subsidiaries (the Group) provide managed procurement and business critical services. The Group operates in the United Kingdom and Republic of Ireland.

The Company is a public limited company, which is listed on the London Stock Exchange and is incorporated and registered in the United Kingdom. The address of its registered office is St Crispins, Duke Street, Norwich, NR3 1PD.

Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

Going concern

The Group has net current liabilities as at 31 December 2009. The Group has traded profitably since the balance sheet date with the profits generated contributing to the funding of the Group's working capital requirements. In addition, the Group meets its day-to-day working capital requirements through sufficient and appropriate credit facilities that are committed until April 2013. The Group's forecasts indicate that it is able to operate within the level of its current facilities for the foreseeable future. Accordingly, the Directors, having made appropriate enquiries, consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements.

Recent accounting developments

Standards, amendments and interpretations effective for the first time in the year ended 31 December 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements in these financial statements.
- IFRS 7 'Financial instruments – Disclosures' (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The presentation requirement of IFRS 7 has been applied in these financial statements.
- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Management have confirmed that the Group operates in two distinct segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports and this standard has been applied in these financial statements.

The following amendments to existing standards and interpretations were also effective for the current year, but the adoption of these amendments to existing standards and interpretations did not have a material impact on the Group:

- IFRS 1 (amendment), 'First-time adoption of IFRS', and IAS 27 (amendment), 'Consolidated and Separate Financial Statements'.
- IFRS 2 (amendment), 'Share Based Payment – Vesting Conditions and Cancellations'.
- IAS 23, 'Borrowing costs' as revised.
- 'Improvements to IFRSs' contains amendments to various existing standards, most being effective from 1 January 2009. The adoption of the remaining 'Improvements to IFRSs' did not result in any changes to the Group's accounting policies.

Standards, amendments and interpretations effective for the first time in the year ended 31 December 2009 but not relevant:

- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.

- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 32, 'Financial instruments: presentation'.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. This provides guidance on accounting for defined benefit pension schemes.

Standards, amendments and interpretations that are not yet effective and have not been early adopted:

- IFRS 3 (revised), 'Business combinations'. The revision to this standard changes accounting for business combinations. While the acquisition method is still applied, there are significant changes to the treatment of contingent payments, transaction costs and the calculation of goodwill. Published by the IASB in January 2008, the standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009, with earlier application permitted. This could impact the Group financial statements in future if it makes acquisitions.
- Amendments to IFRS 2, 'Share-based payment'. These amendments provide a clear basis to determine the classification of share based payment awards in both consolidated and separate financial statements. The amendments incorporate IFRIC 8 and IFRIC 11 into the standard, expand on the guidance given in IFRIC 11 to address plans that were not considered in the interpretation and provide some useful tidying up to the definitions section of IFRS 2. Published on 18 June 2009, the standard is effective for annual periods beginning on or after 1 January 2010, and is unlikely to have a significant impact on the Group.
- IFRS 9, 'Financial instruments' on classification and measurement. This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss. Published in November 2009, and effective for accounting periods beginning on or after 1 January 2013, this is unlikely to have a significant impact on the Group.

Standards, amendments and interpretations that are not yet effective and not currently relevant to the Group:

- Amendment to IFRS 1, 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'.
- IAS 27 (revised), 'Consolidated and separate financial statements'.
- Amendment to IAS 32, 'Financial instruments: Presentation', and IAS 1, 'Presentation of financial statements'.
- Amendment to IAS 39, 'Financial Instruments: Recognition and measurement on eligible hedged items'.
- Amendment to IFRS 1 on first time adoption of IFRS additional exemptions.
- Amendments to IFRIC 9 and IAS 39 regarding embedded derivatives.
- Amendment to IAS 32 on classification of rights issues.
- Amendment to IAS 24, 'Related party disclosures'.
- IFRIC 17, 'Distributions of non-cash assets to owners'.
- IFRIC 18, 'Transfer of assets from customers'.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The subsidiary undertakings included within these financial statements are shown in note 14 to the financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses on transactions between Group companies are also eliminated but are considered for impairment purposes in respect of the asset transferred. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Revenue

Revenue is measured by reference to the fair value of consideration received by the Group from goods supplied and services provided to external customers. Revenue is stated after deducting rebates, returns and other similar discounts, and after eliminating sales between Group companies and is exclusive of value added tax. Revenue is recognised upon the performance of services or when the significant risks and rewards of ownership are transferred to a customer, which occurs on delivery of goods as further described below:

(a) Sale of goods
Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is generally upon delivery of the products to the customer, except where formal bill and hold arrangements are in place when the sale is recognised when an invoice is raised;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold which is generally upon delivery of the goods to the customer, except where formal bill and hold arrangements are in place, as above;
- the amount of revenue can be measured reliably, based on customer agreed purchase orders;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably, based on purchase orders.

(b) Provision of services
When the outcome of a transaction involving the provision of services can be estimated reliably, revenue associated with the transaction is recognised on the basis of performance of contractual obligations and to the extent that the right to consideration has been earned. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably and is estimated by reference to the percentage completion of the requested service (or component parts thereof) to be provided; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where a contract for goods or services involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements delivered to the fair value of the overall contract.

(c) Dividend income
Dividend income is recognised when the right to receive payment is established.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Foreign currency translation

The financial information in this report is presented in sterling, the functional and presentational currency of the Company, rounded to the nearest thousand.

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. All realised foreign exchange differences are taken to the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and are recognised as a separate component of equity.

The results and financial position of the Group entities that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Exceptional and non-recurring costs

Exceptional and non-recurring costs are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to exceptional and non-recurring costs are principally restructuring related costs (including non capitalised costs incurred in

respect of business combinations) and costs in respect of key management changes.

Business combinations and goodwill

The Group recognises intangible assets as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets acquired and the selection of an appropriate cost of capital. The useful lives of intangible assets are estimated and amortisation charged on a straight-line basis.

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets/net liabilities of the acquired subsidiary at the date of acquisition. If the cost of acquisition is less than the fair value of the Group's share of the net assets/net liabilities of the acquired entity (i.e. a discount on acquisition) then the difference is credited to the income statement in the period of acquisition. Goodwill is allocated to cash generating units for the purposes of impairment testing and is tested annually for impairment (refer to impairment of assets policy).

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill acquired up to 31 December 2003 was capitalised and amortised over its useful economic life. As permitted by IFRS1, 'First-time Adoption of International Financial Reporting Standards', the classification and accounting treatment of business combinations made prior to 1 January 2004 was not amended on transition to IFRS.

Other intangible assets

Customer relationships

Customer relationships are recognised as intangible assets at the fair value of the consideration paid to acquire them less provisions for amortisation and impairment. The fair value attributed to the customer relationships acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk adjusted, post tax, weighted average cost of capital at the time of the acquisition for that business combination. The residual values of customer relationships are assumed to be nil.

Customer relationships are reviewed for impairment if conditions exist that indicate a review is required. Amortisation is provided so as to write off the cost of the customer relationships over the expected economic lives of the asset in equal annual instalments as follows:

Customer relationships arising on the acquisition of:

TripleArc plc (AccessPlus)
10 years

Accord Office Supplies Limited (Accord)
10 years

Brands

Brands are recognised as intangible assets at the fair value of the consideration paid to acquire them less provisions for amortisation and impairment. The fair value attributed to the brands acquired through a business combination is determined by discounting the expected future cash flows that would be generated by a royalty stream in respect of the brands, at the risk adjusted, post tax, weighted average cost of capital at the time of the acquisition for that business combination. The residual values of brands are assumed to be nil.

Brands are reviewed for impairment if conditions exist that indicate that a review is required. Amortisation is provided so as to write off the cost of the brands over the expected economic lives of the asset in equal annual instalments as follows:

TripleArc plc (AccessPlus)
10 years

Accord Office Supplies Limited (Accord)
10 years

Software

Software is included at cost and amortised on a straight line basis over its useful economic life of 3-5 years.

The amortisation charge in respect of customer relationships, brands and software is recognised within administrative expenses.

Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in respect of goodwill are not subsequently reversed.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical costs include expenditure that is directly attributable to the acquisition of the items. The assets' residual values and useful lives are reviewed annually and adjusted as appropriate.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Depreciation commences in the month that the assets are fully installed and commissioned and is provided on a straight line basis at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Short leasehold land and buildings
– over the lease term
Plant and machinery
– over 4 to 15 years
Office equipment
– over 3 to 10 years

Assets in the course of construction are stated at historical cost. Such assets are not depreciated. Upon completion of the assets, costs are transferred to the appropriate fixed asset categorisation and commence being depreciated.

The depreciation charge in respect of short leasehold land and buildings, plant and machinery and office equipment is recognised within distribution costs and administrative expenses.

Investments

In the Company's financial statements, investments in subsidiary undertakings are initially stated at cost, being the fair value of the consideration given. Investments are reviewed where an indication of impairment exists. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Leased assets

Assets held under finance leases, as defined under IAS 17, 'Leases', are capitalised and included as part of property, plant and equipment. They are depreciated over their useful lives or the lease term (if shorter). The capital elements of future obligations under finance leases are included as liabilities in the balance sheet. The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Benefits received and receivable as an incentive to enter a lease are spread evenly over the lease term.

Inventories

Inventories comprise of finished goods and goods held for resale and are stated at the lower of cost or net realisable value. Cost includes all expenditure directly attributable to bringing each product to its present location and condition on a first in first out method. Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal.

Provision for obsolete, slow moving and defective inventories are made on a line by line basis, where necessary, in order to reduce inventory to the lower of cost or net realisable value.

Cash and cash equivalents

Cash and cash equivalents shown on the balance sheet comprise cash balances and deposits with banks that have a maturity of three months or less from the date of inception.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet, but are included as a component of cash and cash equivalents for the purposes of the cash flow statement as they form an integral part of the Group's cash management.

Bank overdrafts include cash book overdrafts and confidential invoice discounting arrangements whereby the amount borrowed is limited to a proportion of the trade receivables.

Provisions

The Group makes provision for liabilities when it has a legal or constructive obligation arising from a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions for property dilapidations represent the current estimated costs to repair leased properties which are required to be made good before the properties are returned at the end of the leases. Provision is made on a property by property basis and the timing of the utilisation will differ for each property.

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the

risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Retirement benefit costs

Group companies operate both defined benefit and defined contribution pension plans.

The Group maintains a defined benefit pension scheme for former employees of Her Majesty's Stationery Office, which requires contributions to be made to a separately administered fund. The scheme currently has 162 members and is closed to new members. The scheme is administered by trustee directors of Banner Business Supplies (Pensions) Limited, which is a wholly owned subsidiary of office2office (UK) plc, a subsidiary company of office2office plc.

The net surplus or deficit of the defined benefit pension scheme is calculated in accordance with IAS 19, 'Employee Benefits', based on the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are determined in the currency in which the benefits will be paid, and have terms to maturity approximating to the terms of the related pension liability.

The Group has, in respect of IAS 19 and IFRS 1, adopted the corridor approach to account for its pension scheme liability. As a result, all cumulative actuarial gains and losses at the date of transition to IFRS (1 January 2004) have been taken directly to reserves. In respect of actuarial gains and losses that arise subsequent to that date, to the extent that, cumulatively, they exceed 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of the plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan from the accounting period following the year of exceeding the corridor. Otherwise, the accumulated actuarial gains and losses are not recognised.

Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognised asset is limited to that for which the Group can benefit in future, for example, by refunds or a reduction in contributions.

The cost charged to administrative expenses in the income statement consists of current service cost, interest cost, expected return on plan assets, past service cost and the impact of any settlements or curtailments, as well as actuarial gains or losses to the extent that they are recognised.

A valuation is performed annually by an independent actuary. Further details in respect of the assumptions used in providing the valuation are included in note 24 to the financial statements.

Since 30 September 1996, all new employees have been eligible to join the Group's personal pension scheme, which is a defined contribution scheme. Contributions to defined contribution arrangements are charged to the income statement in the period in which they fall due. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Share-based compensation

The Group operates a number of share-based compensation schemes including a SAYE scheme which is open to all employees. The fair value of the employee services received in exchange for the grant of options (approximated by reference to the fair value of the option granted) is recognised as an expense. The fair value of the option is measured at grant date and spread over the vesting period (which is the period over which all of the specified vesting conditions are to be satisfied) through the income statement with a corresponding increase in equity. The fair value of the share options and awards are measured using an option-pricing model taking into account the terms and conditions of the individual schemes. The fair value of options awarded under schemes with market based performance conditions is estimated using a Monte-Carlo model. The fair value of options awarded under schemes with non-market based performance conditions is estimated using a Black-Scholes model.

Shares purchased through the employee benefit trust (EBT) are held at cost and treated as Treasury Shares and are deducted from shareholders' equity. The right to a dividend and voting rights on these shares has been waived.

When options are exercised, the Company sells shares through the EBT to satisfy the options.

The Group makes charges to the income statement for any potential employer's national insurance liability on options granted, based on the Director's best estimate of the fair value of the options granted at the balance sheet date and spread over the vesting period of the option.

The fair value of the options granted under the various schemes has been accounted for in the Group's financial statements. Where these amounts are in respect of subsidiaries they are accounted for as an adjustment to the Company's carrying value of investments.

At each balance sheet date, the Company revises its estimate of the number of options that are going to vest. The Group recognises the impact of any revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds on exercise of options, net of any directly attributable transaction costs, are credited to share capital (at nominal value) and share premium when the options are exercised.

Current and deferred income tax

The tax charge for the period comprises

both current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous periods, and is calculated on the basis of tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying value for accounting purposes.

Deferred tax is determined on a non-discounted basis using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Where the intrinsic value of a share option exceeds the fair value, the corresponding deferred tax on the excess is recognised directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference.

Financial assets and liabilities

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets and liabilities in the following categories: loans and receivables, and other financial liabilities. The classification depends on the purpose for which the financial assets or liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition. The classification of financial liabilities is determined in accordance with IFRS 7 taking account of the repayment profile of the liability. For those with fixed or determinable payment profiles the amounts are recognised as either current liabilities or, where amounts are not due for more than 12 months after the reporting period, as non-current liabilities.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within cost of sales. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against cost of sales in the income statement.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are not interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Investments

In accordance with IAS 39, available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. If the fair value can subsequently be measured by reference to third party information, such as an offer to purchase, the financial asset is revalued to this fair value. Any gains or losses arising from the revaluation to fair value are recognised as other gains or losses in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

The above financial assets and liabilities are grouped as follows:

- Cash and cash equivalents and trade and other receivables (excluding prepayments) are classified as loans and receivables for the purpose of IFRS 7.
- Borrowings, finance leases and trade and other payables (excluding statutory liabilities) are classified as

other financial liabilities at amortised cost for the purpose of IFRS 7.

Dividends

Distributions to owners are disclosed as a component of the movement in the statement of changes in shareholders' equity. A liability is recorded for a final dividend when the dividend is approved by the Company's shareholders. Interim dividends are recognised in the period in which they are paid.

Use of non-GAAP profit measures

The Directors believe that the use of underlying profit before income tax provides a clearer understanding of the performance of the Group. This measure is used for internal performance analysis. Underlying profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior, to IFRS measurements of profit.

Underlying profit is calculated as follows:

	2009 £000	2008 £000
Profit before income tax	**8,123**	9,607
Add:		
Share option charges (note 26)	**363**	23
Exceptional and non-recurring costs (note 5)	**3,645**	1,812
Amortisation of intangibles (note 12)	**999**	624
Underlying profit before income tax	**13,130**	12,066

1. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, commodity price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Currency risk

The Group operates in the United Kingdom and Republic of Ireland and, accordingly, has limited exposure to foreign exchange risk. Currency risk is managed by matching, where possible, cash inflows and outflows denominated in Euros.

The Group does not currently hedge any foreign currency transactions but continues to keep this policy under review.

Management have considered and concluded that a movement of 10% would be a reasonable benchmark over which to determine the sensitivity of the Group's performance to foreign exchange rate risk, because a movement of this magnitude is considered to be a reasonable approximation of movements that could be expected to occur. For the year ended 31 December 2009, if the Euro had weakened/strengthened by 10% against sterling with all other variables held constant, post-tax profit and the movement in net assets for the year would have been £72,000 (2008: £8,000) lower/higher, as a result of foreign exchange gains/losses on translation of the Euro-denominated transactions and monetary assets and liabilities at fair value through profit or loss.

The calculation applied in determining the impact of a 10% movement in exchange rates is based upon adjusting the average exchange rates by 10% on the Euro denominated transactions.

(ii) Commodity price risk

The Group has exposure to changes in commodity prices such as steel, oil and paper (including supplier price increases as a result of foreign exchange movements), which form a constituent part of many of the products sold. It is the policy of the Group to pass on these unavoidable cost price increases to customers as appropriate.

Management have considered and concluded that a movement of 1% in gross margin percentage would be a reasonable benchmark over which to determine the sensitivity of the Group's performance to commodity price risk, because a movement of this magnitude is considered to be a reasonable approximation of movements that could expect to be incurred by the Group. For the year ended 31 December 2009, if the gross margin percentage had weakened/strengthened by 1% with all other variables held constant, gross profit for the year would have been £1,875,000 (2008: £1,810,000) lower/higher.

The Group does not currently hedge its exposure to commodity prices but continues to keep this policy under review.

(iii) Cash flow and fair value interest rate risk

The Group has interest-bearing assets in the form of cash and cash equivalents. The Company has interest bearing assets in the form of loans to subsidiary companies. Therefore interest income is sensitive to movements in interest rates.

The Group's interest rate risk predominantly arises from short and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2008 and 2009, the Group's borrowings, other than in respect of finance leases, were all at variable rates and all borrowings were denominated in sterling.

The Group continues to keep its policy of not hedging its exposure to interest rate movements under review.

For the year ended 31 December 2009 management have considered and concluded that a movement of 100 basis points would be a reasonable benchmark over which to determine the sensitivity of the Group's performance to interest rate risk. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been £212,000 (2008: £122,000) lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposure to customers, including outstanding receivables and committed transactions.

For banks and financial institutions only independently rated parties with a minimum rating of 'A' are accepted in normal circumstances.

Internally, customers are rated according to financial position, history of trading and other factors. Individual credit limits are based on internal and external ratings, in accordance with limits set by management. The utilisation of credit limits is regularly monitored. Concentrations of credit risk with respect to trade receivables are limited due to the Group's diverse customer base.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows.

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts shown are contractual (including interest), undiscounted cash flows.

At 31 December 2009	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Borrowings (excluding finance lease liabilities)	10,894	3,364	20,766	-
Finance leases	427	396	667	-
Trade payables and accrued expenses	33,850	-	-	-
	45,171	**3,760**	**21,433**	**-**

At 31 December 2008	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Borrowings (excluding finance lease liabilities)	7,710	3,441	24,083	-
Finance leases	324	136	272	6
Trade payables and accrued expenses	38,153	-	-	-
	46,187	**3,577**	**24,355**	**6**

The Group's overall risk management programme focuses as an objective on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out centrally and where appropriate under policies approved by the Board of Directors. The policies adopted are described above.

There have been no breaches in the contractual terms of the amounts shown above.

Interest rate risk profile of financial liabilities

The interest rate risk profile of financial liabilities was as follows:

	2009 £000	2008 £000
Fixed-rate borrowings	**1,378**	655
Variable-rate borrowings	**32,425**	31,697
	33,803	32,352

The fixed-rate borrowings comprise finance leases with an effective weighted average interest rate of 4.3% (2008: 7.4%), fixed for a weighted average period of 3.2 years (2008: 1.9 years).

In addition to short-term borrowing facilities, the Group arranged a loan on 16 April 2008 of £25,000,000 for the purpose of funding the Group's acquisition strategy. The loan is repayable in instalments between April 2010 and April 2013, with interest charged at a floating rate linked to LIBOR. A maturity analysis is provided at note 20 to the financial statements.

Maturity profile of financial liabilities (excluding trade payables)

	2009 £000	2008 £000
Within one year	**10,310**	6,978
Over one year and under two years	**2,859**	2,617
Between two and five years	**20,634**	22,751
After five years	**-**	6
	33,803	32,352

Currency risk profile of financial assets/liabilities

The Group did not have a material exposure to foreign exchange gains or losses on financial assets and liabilities denominated in foreign currencies at 31 December 2009 and has not used any instruments to hedge foreign currency transactions.

Financial assets/(liabilities) relating to cash balances and overdrafts held at financial institutions are at floating rates denominated in the currency held below:

	2009 £000	2008 £000
Sterling - deposits	**4,717**	2,271
Sterling - bank overdrafts	**(7,425)**	(6,697)
	(2,708)	(4,426)
Euro - deposits	**1,270**	420
	(1,438)	(4,006)

There is no material currency risk relating to other financial assets or liabilities.

Fair values of financial instruments

See note 20 for consideration of the differences between the carrying amount and the fair value of borrowings. The fair value of other financial assets and liabilities is not materially different to their book value due to the short term maturity of the instruments.

The Group holds a 60% interest in Banner Document Services Limited. The Group holds an option to acquire Shred Easy Limited, the entity that holds the remaining 40% of Banner Document Services Limited. The option price is based upon market values prevailing at the date of the agreement (November 2008) and is not considered to have a value to the Group as at 31 December 2009.

Fair value measurement

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily FTSE 100 equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the financial liabilities are included in Level 2.

Committed undrawn facilities

The Group has the following undrawn borrowing facilities:

	2009 £000	2008 £000
Gross undrawn committed confidential invoice discounting facility	20,000	20,000
Cash book overdraft	(7,425)	(6,697)
Net undrawn facilities	12,575	13,303
Bank balances	5,987	2,691
Available liquidity	18,562	15,994

As at 31 December 2009, the Group had not drawn against its committed invoice discounting facility. At that date the Group had a cash book overdraft of £7,425,000 (2008: £6,697,000) and bank balances of £5,987,000 (2008: £2,691,000). If all payments had cleared on the day of issue the Group would have had net available liquidity of £18,562,000 (2008: £15,994,000).

The confidential invoice discounting facility is a committed facility, subject to sufficient security from trade receivables, expiring in April 2013.

The Group has sufficient headroom to enable it to conform to covenants on its existing borrowings. The Group has sufficient working capital and undrawn financing facilities to service its operating activities and finance further suitable acquisition opportunities should they arise.

There have been no breaches in the covenants on borrowings in the year ended 31 December 2009 and up to the date of signing the financial statements.

Capital risk management

The Group's policy is to maintain a strong capital base, defined as facilities plus total shareholders' equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings. Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/earnings before interest, tax, depreciation and amortisation (EBITDA) ratio, future funding needs (usually potential acquisitions) and Group banking arrangements (including the monitoring of debt covenants over current funding arrangements). There were no changes to the Group's approach to capital management during the year. The primary source of funding for the Group is bank borrowings.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio, calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non current borrowings, less cash) as shown in the balance sheet. Total equity is defined as total equity as shown in the consolidated balance sheet.

	2009 £000	2008 £000
Total borrowings (note 20)	(33,803)	(32,352)
Less: cash and cash equivalents (note 18)	5,987	2,691
Net debt	(27,816)	(29,661)
Total equity	22,787	20,160
Gearing ratio	1.22	1.47

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Determination of cash flows, discount rates used in business combinations and impairment reviews of goodwill and other intangibles

Discount rates are determined by management for the purpose of valuing fair values of intangible assets arising on business combinations and to determine the net present value of cash flows in respect of annual impairment reviews of goodwill and other intangibles when appropriate.

The discount rates used for the purpose of impairment reviews are based on the appropriate cost of capital adjusted for management's perceived risk.

The cash flows attributable to the cash-generating unit to which goodwill (and, when appropriate, other intangibles) is allocated are based on managements' best estimates of future profitability and the resulting cash flows.

While management believe the discount rates and cash flows used are the most appropriate rates, changes in these assumptions could result in impairment of goodwill, other intangibles, or in the fair value of intangibles in respect of business combinations differing to the values recorded.

Income tax

The Group is subject to income tax in both the United Kingdom and the Republic of Ireland. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Assets and liabilities

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Impairment of inventories

Where necessary, provision is made for obsolete, slow-moving and damaged stock. This provision represents the difference between the cost of the stock and its estimated market value, based upon stock turn rates, market conditions and trends in consumer demand.

Allowances for doubtful receivables

Allowances are made for doubtful receivables for estimated losses resulting from the subsequent inability of customers to make required payments. If the financial conditions of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods.

Pensions

The determination of the pension benefit obligation and expense for the defined benefit pension plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in note 24 to the financial statements and include, among others, the discount rate, the expected long-term rate of increase in future compensation levels and expected mortality rates. A portion of the plan assets are invested in equity securities. The equity markets have experienced volatility, which has affected the value of the pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. While the Directors believe that the assumptions are appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation and the future expense.

Share based payments

The fair value of options awarded under schemes with market based performance conditions is estimated using a Monte-Carlo model. The fair value of options awarded under schemes with non-market based performance conditions is estimated using a Black-Scholes model. These models require the use of estimates and forward looking projections.

3. Segmental information

IFRS 8, 'Operating Segments'; replaces IAS 14, 'Segment Reporting' and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The operating segments are identified on the basis of internal reports regularly reviewed by the Board of Directors, the Board of Directors being the chief operating decision-maker, in order to allocate resources to the segments and to assess their respective performance.

The Board considers the business from a service perspective. The Group is organised into two business segments;

- Managed procurement; and
- Business critical services

The business units of each reportable segment (Banner Business Services and Accord in respect of managed procurement and AccessPlus and Banner Document Services in respect of business critical services), do not qualify as reportable segments as decisions about the allocation of resources and the assessment of performance are not made at this level.

The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interest, taxation and amortisation (EBITA). This measurement basis excludes the effects of exceptional and non-recurring expenditure from the operating segments, such as restructuring costs. Other information provided to the Board, except as noted below, is measured in a manner consistent with that in the financial statements.

Total assets include the bank balance of office2office plc, which is managed for the basis of dividend distributions. This is part of the reconciliation to total balance sheet assets.

	Managed procurement £000	Business critical services £000	Total £000
Year ended 31 December 2009			
Revenue	**151,185**	**36,279**	**187,464**
Adjusted EBITA	**19,212**	**3,875**	**23,087**
Year ended 31 December 2008			
Revenue	151,125	29,874	180,999
Adjusted EBITA	18,820	2,089	20,909
Total Assets			
31 December 2009	**59,858**	**39,592**	**99,450**
31 December 2008*	53,843	46,832	100,675
Additions to property, plant and equipment			
31 December 2009	**709**	**1,426**	**2,135**
31 December 2008	212	109	321
Depreciation			
31 December 2009	**(546)**	**(432)**	**(978)**
31 December 2008	(638)	(216)	(854)

* Restated to reflect fair value adjustments arising on acquisitions made in the period ended 31 December 2008 (note 31).

A reconciliation of total adjusted EBITA to profit before income tax is provided as follows:

	2009 £000	2008 £000
Adjusted EBITA for reportable segments	**23,087**	20,909
Central costs	**(9,101)**	(7,484)
Finance income	**-**	190
Finance costs	**(856)**	(1,549)
Underlying profit before income tax	**13,130**	12,066
Share option expense	**(363)**	(23)
Exceptional and non-recurring costs	**(3,645)**	(1,812)
Amortisation	**(999)**	(624)
Profit before income tax	**8,123**	9,607

Reportable segments' assets are reconciled to total assets as follows:

	2009 £000	2008 £000
Total segment assets	**99,450**	100,675
Unallocated:		
Cash and cash equivalents	**1**	159
Total assets per balance sheet	**99,451**	100,834

Secondary reporting format – geographical segments

	Revenue		Profit before income tax		Total assets	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008* £000
United Kingdom	**183,436**	178,052	**8,047**	10,856	**97,398**	99,451
Republic of Ireland	**4,028**	2,947	**932**	110	**2,053**	1,383
	187,464	180,999	**8,979**	10,966	**99,451**	100,834
Net interest			**(856)**	(1,359)		
Profit before income tax			**8,123**	9,607		

* Restated to reflect fair value adjustments arising on acquisitions made in the period ended 31 December 2008 (note 31).

Of the revenues generated in the United Kingdom £183,181,000 (2008: £177,896,000) are generated from customers in the United Kingdom and the total of revenues from customers from other countries is £255,000 (2008: £156,000). All of the revenues in respect of the Republic of Ireland are generated from customers in the Republic of Ireland. Of the total assets in the United Kingdom and Republic of Ireland £61,761,000 (2008: £61,800,000) and £nil (2008: £62,000) respectively relate to non current assets (other than deferred tax assets).

Revenue and profit before tax by geographical area is stated by origin, which is not materially different from the analysis by destination. Expenditure on property, plant and equipment of £2,134,000 (2008: £321,000) was incurred in the United Kingdom. Expenditure on intangible fixed assets of £70,000 (2008*: £46,280,000) was incurred in the United Kingdom. No amounts in respect of expenditure on property, plant and equipment or intangible fixed assets were incurred in the Republic of Ireland.

No single customer generates more than 10% of total revenues.

4. Expenses by nature

Group	2009 £000	2008 £000
Changes in inventories of finished goods, work in progress and consumption of goods held for resale	**129,869**	123,574
Employee benefit expense (note 6a)	**27,866**	25,689
Depreciation of property, plant and equipment (note 13)	**978**	854
Amortisation of intangible assets (note 12)	**999**	624
Exceptional and non-recurring costs (note 5)	**3,645**	1,812
Foreign exchange losses	**30**	120
Impairment to trade and other receivables	**60**	474
Operating lease payments	**3,611**	4,160
Other operating costs	**11,427**	12,726
Total cost of sales, distribution costs and administrative expenses	**178,485**	170,033

5. Exceptional and non-recurring costs

The amounts recognised as exceptional and non-recurring costs are as follows:

	2009 £000	2008 £000
Compensation payments	**2,279**	921
Non capitalised costs in respect of business combinations	**-**	163
Business and strategic review costs	**1,366**	728
	3,645	1,812

Compensation payments relate to amounts paid to ex-employees of Group companies. Non capitalised costs in respect to business combinations are costs incurred which did not qualify to be capitalised. Business and strategic review costs relate to costs incurred by the Group in relation to management's commitment to improve operational efficiency. These costs are considered to be exceptional in nature and not reflective of the underlying operating performance of the Group.

6a. Employee benefit expense

	2009 £000	2008 £000
Wages and salaries	**24,130**	22,667
Social security costs	**2,446**	2,190
Share based payments (note 26)	**278**	45
Pension costs - defined benefit (note 24)	**387**	229
- defined contribution (note 24)	**625**	558
	27,866	25,689

Included within the above figures are compensation payments to ex-employees of £2,279,000 (2008: £921,000).

Key management compensation

The employment costs of key management personnel (including executive Directors) during the year were as follows:

	2009 £000	2008 £000
Salaries and other short term employee benefits	**2,763**	1,862
Pension costs – defined contribution	**163**	140
Share based payments	**383**	341
	3,309	2,343

A detailed numerical analysis of Directors' remuneration and share options forms part of these financial statements. This analysis is included in the Directors' Remuneration Report on pages 28 to 32 and shows the highest paid Director and the number of Directors accruing benefits under money-purchase personal pension schemes.

6b. Average number of people employed

	2009 Number	2008 Number
Average number of people (including executive Directors) employed:		
Sales and marketing	**366**	395
Production and distribution	**427**	469
Administration	**94**	139
	887	1,003

As at 31 December 2009 the Group had 874 employees (2008: 922).

7. Auditor's remuneration

Services provided by the Company's auditor and its associates

During the year the Group (including its overseas subsidiary) obtained the following services from the Company's auditor and its associates:

Group	2009 £000	2008 £000
Fees payable to Company's auditor for the audit of the Company and consolidated financial statements	**45**	45
Fees payable to the Company's auditor and its associates for other services expensed in the income statement:		
- audit of Company's subsidiaries pursuant to legislation	**75**	85
- tax services	**20**	36
	140	166
Fees payable to the Company's auditor and its associates for other services capitalised:		
- services relating to corporate finance transactions	**-**	175
	140	341

8. Finance income and costs

Group	2009 £000	2008 £000
Interest expense:		
- bank loans and overdrafts	**(404)**	(979)
- finance lease liabilities	**(77)**	(62)
- other financial charges	**(173)**	(348)
- customer procurement card charges	**(202)**	(160)
Finance costs	**(856)**	(1,549)
Finance income:		
- interest income on short-term bank deposits	**-**	190
Net finance costs	**(856)**	(1,359)

9. Income tax expense

Group	2009 £000	2008 £000
Current tax		
United Kingdom corporation tax at 28%	**2,194**	2,637
Adjustments in respect of prior years	**-**	167
	2,194	2,804
Deferred tax		
Origination and reversal of temporary differences (note 15)	**(405)**	191
	1,789	2,995

Tax on items charged to equity

	2009 £000	2008 £000
Deferred tax (credit)/charge on share options (note 15)	**(64)**	5

The Group tax charge for the year differs from the standard rate of corporation tax of 28% (2008: 28.5%). The differences are explained below:

	2009 £000	2008 £000
Profit before income tax	**8,123**	9,607
Income tax at the standard rate of UK corporation tax of 28% (2008: 28.5%)	**2,274**	2,738
Tax effects of:		
Expenses not deductable for tax purposes	**209**	185
Utilisation of previously unrecognised tax losses	**(268)**	(95)
Release of deferred tax liability arising on business combinations	**(426)**	-
Adjustment in respect of prior years	**-**	167
Total tax charge for the year	**1,789**	2,995

Factors affecting future tax charges

The effective tax rate in the near future is anticipated to continue to be less than the standard rate due to releases of deferred tax liabilities arising on business combinations partially offset by expenses not deductable for tax purposes.

Details with regard to the availability of unprovided tax losses that may be offset against future taxable profits are given in note 15.

10. Dividends

	2009 £000	2008 £000
Amounts recognised as distributions in the year in respect of:		
Ordinary shares - interim dividend 2009 – 3.6p per share	**(1,288)**	-
Ordinary shares - final dividend 2008 – 7.5p per share	**(2,681)**	-
Ordinary shares - interim dividend 2008 – 3.5p per share	**-**	(1,249)
Ordinary shares - final dividend 2007 – 6.8p per share	**-**	(2,427)
	(3,969)	(3,676)

The Directors have proposed a final dividend of 7.8p per Ordinary share (total £2,792,000), payable on 21 May 2010 to shareholders on the register at the close of business on 23 April 2010. The dividend has not been included as a liability as at 31 December 2009.

11. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing profit attributable to owners of the Company by the weighted average number of Ordinary shares in issue during the year excluding Ordinary shares held by the employee benefit trust.

	2009	2008
Profit attributable to owners of the Company (£000)	**6,138**	6,612
Weighted average number of Ordinary shares in issue ('000)	**35,773**	35,695
Basic earnings per share (pence per share)	**17.2**	18.5

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. The Company has one category of dilutive potential Ordinary shares, being share options. For share options, a calculation is undertaken to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2009	2008
Profit attributable to owners of the Company (£000)	**6,138**	6,612
Weighted average number of Ordinary shares in issue ('000)	**35,773**	35,695
Adjusted for share options ('000)	**27**	121
Weighted average number of Ordinary shares for diluted earnings per share ('000)	**35,800**	35,816
Diluted earnings per share (pence per share)	**17.1**	18.5

(c) Underlying earnings per share

Underlying earnings per share is calculated by dividing profit on ordinary activities after tax (before the after tax effect of exceptional and non-recurring costs, amortisation and share option expense) by the weighted average number of Ordinary shares in issue during the year excluding Ordinary shares held by the employee benefit trust.

	2009	2008
Profit attributable to owners of the Company (£000)	**6,138**	6,612
Amortisation (net of tax)	**573**	624
Share option expense	**363**	23
Exceptional and non-recurring costs (net of tax)	**2,624**	1,350
Underlying profit attributable to owners of the Company (£000)	**9,698**	8,609
Weighted average number of Ordinary shares in issue ('000)	**35,773**	35,695
Adjusted earnings per share (pence per share)	**27.1**	24.1

12. Intangible assets

Group

2009	Goodwill £000	Customer relationships £000	Brands £000	Software £000	Total £000
Cost					
At 1 January 2009	50,388	5,458	3,938	131	59,915
Additions	-	-	-	70	70
At 31 December 2009	**50,388**	**5,458**	**3,938**	**201**	**59,985**
Accumulated amortisation					
At 1 January 2009	-	(385)	(243)	(24)	(652)
Amortisation for the year	-	(521)	(394)	(84)	(999)
At 31 December 2009	**-**	**(906)**	**(637)**	**(108)**	**(1,651)**
Net book amount					
At 31 December 2009	**50,388**	**4,552**	**3,301**	**93**	**58,334**

2008*	Goodwill £000	Customer relationships £000	Brands £000	Software £000	Total £000
Cost					
At 1 January 2008	13,607	28	-	-	13,635
Additions arising on business combinations (note 31)	36,781	5,430	3,938	103	46,252
Additions at cost	-	-	-	28	28
At 31 December 2008	**50,388**	**5,458**	**3,938**	**131**	**59,915**
Accumulated amortisation					
At 1 January 2008	-	(28)	-	-	(28)
Amortisation for the year	-	(357)	(243)	(24)	(624)
At 31 December 2008	**-**	**(385)**	**(243)**	**(24)**	**(652)**
Net book amount					
At 31 December 2008	**50,388**	**5,073**	**3,695**	**107**	**59,263**
At 1 January 2008	**13,607**	**-**	**-**	**-**	**13,607**

* Restated to reflect fair value adjustments arising on acquisitions made in the period ended 31 December 2008 (note 31).

Company

The Company had no intangible assets (2008: none).

Impairment of goodwill

In accordance with IAS 36, 'Impairment of Assets', the Group regularly monitors the carrying value of its goodwill and reviews it annually or more regularly if there are indications that goodwill may be impaired. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) and goodwill is allocated to these cash-generating units. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The components of goodwill by business segment are shown below:

	2009 £000	2008* £000
Managed procurement	**19,251**	19,251
Business critical services	**31,137**	31,137
	50,388	50,388

* Restated to reflect fair value adjustments arising on acquisitions made in the period ended 31 December 2008 (note 31).

A review was undertaken at 31 December 2009 to assess whether the carrying value of goodwill was impaired by reference to value in use calculations. The value in use calculations use cash flow projections based on financial budgets and forecasts as approved by the Board of Directors for a five year period. Cash flow projections beyond the five year period are extrapolated using the estimated growth rate referred to below.

The key assumptions in the value-in-use calculation were:

- cash flow projections for the five year period are based upon recent observable performance of the Group, including budgeted gross margin and expected operating cash inflows;
- the pre-tax weighted average cost of capital (WACC) for the Group is 11.9%. The Group believes that the risk profiles relating to each business segment are not significantly different, hence the same WACC is universally applied across all cash-generating units; and
- long-term growth rate of 2.5% which is not greater than the long-term growth assumption for the sector.

The outcome of the impairment tests for the cash-generating units carrying amounts of goodwill is summarised as follows:

	Headroom £000
Managed procurement	181,385
Business critical services	4,032
	185,417

The headroom represents the difference between the calculated value-in-use and the net asset carrying value of the cash-generating unit.

Whilst management believe the assumptions are realistic, it is possible an impairment would be identified if any of the above key assumptions were changed significantly. For instance, factors which could cause impairment are:

- significant underperformance relative to the forecast results;
- a further deterioration in the wider economy; and
- an increase in the Group's WACC.

The value-in-use is based upon anticipated discounted future cash flows. Management believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment.

A half a percentage point increase/(decrease) in the WACC to 12.4%/11.4% would result in a reduction/(increase) in the headroom for managed procurement to circa £171m/£191m. The headroom for business critical services would similarly reduce/(increase) to circa £2m/£6m. Management consider that a half a percentage point in the movement of the WACC reflects an approximation to the possible movements in the Group's cost of capital relevant to the cash-generating units.

In order for there to be no impairments within managed procurement, discounted cash flows in 2015 could fall by up to 75% and by up to 25% in business critical services. Management have used 2015 for this purpose due to the long-term growth rate assumption applied and the relative predictability of operating cashflows to 2015.

Customer relationships and brands both have 8.5 years before the assets are written down in full. Software costs are amortised over three years from date of purchase.

13. Property, plant and equipment

Group

2009	Short leasehold land and buildings £000	Plant and machinery £000	Office equipment £000	Total £000
Cost				
At 1 January 2009	2,843	1,915	2,869	7,627
Additions at cost	699	1,413	23	2,135
Disposals	(643)	(853)	(2,369)	(3,865)
At 31 December 2009	**2,899**	**2,475**	**523**	**5,897**
Accumulated depreciation				
At 1 January 2009	(1,263)	(1,273)	(2,492)	(5,028)
Charge for the year	(322)	(416)	(240)	(978)
Disposals	571	601	2,364	3,536
At 31 December 2009	**(1,014)**	**(1,088)**	**(368)**	**(2,470)**
Net book amount				
At 31 December 2009	**1,885**	**1,387**	**155**	**3,427**

2008	Short leasehold land and buildings £000	Plant and machinery £000	Office equipment £000	Total £000
Cost				
At 1 January 2008	1,841	1,664	2,424	5,929
Additions arising on business combinations (note 31)	957	106	330	1,393
Additions at cost	45	159	117	321
Disposals	-	(14)	(2)	(16)
At 31 December 2008	**2,843**	**1,915**	**2,869**	**7,627**
Accumulated depreciation				
At 1 January 2008	(1,033)	(951)	(2,205)	(4,189)
Charge for the year	(230)	(336)	(288)	(854)
Disposals	-	14	1	15
At 31 December 2008	**(1,263)**	**(1,273)**	**(2,492)**	**(5,028)**
Net book amount				
At 31 December 2008	**1,580**	**642**	**377**	**2,599**
At 1 January 2008	**808**	**713**	**219**	**1,740**

The net book value of Group plant and equipment held under finance leases was £1,229,000 (2008: £464,000). Depreciation charged in the year on these assets amounted to £295,000 (2008: £319,000).

Company

The Company has no property, plant and equipment (2008: none).

14. Investments in subsidiaries

Company

	2009 £000	2008 £000
At 1 January	**7,705**	7,682
Options granted to employees of subsidiary undertakings	**363**	23
At 31 December	**8,068**	7,705

The Directors consider that the carrying value of the investment is supported by the value of the underlying assets.

Details of the subsidiaries are as follows:

Name of company	Nature of business	Country of incorporation	% Holding	
			Company	Subsidiary
office2office (UK) plc	Non trading holding company	England	100%	
Olive 1 Limited	Non trading holding company	England	100%	
Banner Business Services Limited	Managed procurement	England		100%
first2office Limited	Managed procurement	England		100%
esp2office Limited	Managed procurement	England		100%
image2office Limited	Business critical services	England		100%
Banner Business Supplies (Ireland) Limited	Managed procurement	Republic of Ireland	100%	
Banner Document Services Limited	Business critical services	England		60%
Alpha Office Limited	Managed procurement	England		100%
Accord Office Supplies Limited	Managed procurement	England		100%
TripleArc Limited	Business critical services	Republic of Ireland		100%
AccessPlus Holdings Limited	Non trading holding company	England		100%
AccessPlus Marketing Services Limited	Business critical services	England		100%
AccessPlus Marketing Logistics Limited	Business critical services	England		100%
Banner Business Supplies Limited	Non trading	England		100%
Banner Business Supplies (Pensions) Limited	Non trading - trustee for pension scheme only	England		100%
Alpha Data Supplies Limited	Non trading	England		100%
Alpha Stationers Limited	Non trading	England		100%
Alpha Litho Limited	Non trading	England		100%
Colebrook Services Limited	Non trading	England		100%
File-It Limited	Non trading	England		100%
AccessPlus Limited	Non trading	England		100%
AccessPlus Print Management Limited	Non trading	England		100%
TripleArc UK Limited	Non trading	England		100%
GL2 Limited	Non trading	England		100%
Godfrey Lang Limited	Non trading	England		100%
West Riding Business Forms Limited	Non trading	England		100%
Software Stationery Holdings Limited	Non trading	England		100%
Software Stationery Specialists Limited	Non trading	England		100%
Banner Managed Services plc	Non trading	England		100%

All of the above shareholdings are in the subsidiaries' ordinary share capital.

15. Deferred income tax (liability)/asset

	Group 2009 £000	Group 2008* £000
Deferred income tax asset	**1,240**	1,197
Deferred income tax liability	**(2,197)**	(2,623)
	(957)	(1,426)

The deferred income tax (liability)/asset recognised in the financial statements is as follows:

	Group 2009 £000	Group 2008* £000
Tax effect of timing differences:		
Excess of qualifying depreciation over tax allowances	**265**	153
Employee share schemes	**266**	206
Retirement benefit obligations	**250**	292
Other temporary differences	**(1,738)**	(2,102)
Unutilised tax losses carried forward	**-**	25
	(957)	(1,426)

Group	Asset 2009 £000	Asset 2008* £000	Liability 2009 £000	Liability 2008* £000
At 1 January	**1,197**	1,316	**(2,623)**	-
Credited/(charged) to the income statement (note 9)	**(21)**	(191)	**426**	-
Arising on business combinations (note 31)	**-**	77	**-**	(2,623)
Credited to equity (note 9)	**64**	(5)	**-**	-
At 31 December	**1,240**	1,197	**(2,197)**	(2,623)

The deferred income tax (liability)/asset is estimated to be recoverable as follows:

	Group 2009 £000	Group 2008* £000
Deferred income tax (liability)/assets:		
- to be recovered after more than 1 year	**(781)**	(1,054)
- to be recovered within 1 year	**(176)**	(372)
	(957)	(1,426)

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

* Restated to reflect fair value adjustments arising on acquisitions made in the period ended 31 December 2008 (note 31).

The movements in deferred tax (liability)/asset during the period is shown below:

Group

Deferred income tax assets/(liabilities)	Depreciation over tax allowances £000	Other temporary differences £000	Retirement benefit obligations £000	Tax losses £000	Share options £000	Total £000
At 1 January 2009	153	(2,102)	292	25	206	**(1,426)**
Charged to income statement	112	364	(42)	(25)	(4)	**405**
Charged to equity	-	-	-	-	64	**64**
At 31 December 2009	**265**	**(1,738)**	**250**	**-**	**266**	**(957)**

Deferred income tax assets/(liabilities)	Depreciation over tax allowances £000	Other temporary differences £000	Retirement benefit obligations £000	Tax losses £000	Share options £000	Total £000
At 1 January 2008	198	538	317	35	228	**1,316**
Charged to income statement	(98)	(17)	(25)	(34)	(17)	**(191)**
Arising on business combinations (note 31)	53	(2,623)	-	24	-	**(2,546)**
Charged to equity	-	-	-	-	(5)	**(5)**
At 31 December 2008	**153**	**(2,102)**	**292**	**25**	**206**	**(1,426)**

Deferred income tax assets and liabilities are recognised for tax losses and short term timing differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group had an unprovided deferred tax asset relating to the trading losses of £3,547,000 (2008: £4,505,000). This amount has not been recognised due to uncertainty as to the future utilisation of these losses.

Company

The Company had no provided or unprovided deferred tax balances in either year.

16. Inventories

Group	**2009 £000**	2008 £000
Finished goods and goods for resale	**6,412**	8,371

The difference between cost of goods purchased or production cost of stocks and their replacement cost is not material.

The Group consumed £129,929,000 (2008: £124,048,000) of inventories during the year.

The provision to reflect net realisable value being less than cost decreased by £371,000 (2008: increased by £215,000) during the year.

Company

The Company held no inventories (2008: £nil).

17. Trade and other receivables

	Group		Company	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Trade receivables	**21,320**	25,678	**-**	-
Less: provision for impairment	**(1,309)**	(2,021)	**-**	-
Trade receivables net	**20,011**	23,657	**-**	-
Prepayments and accrued income	**4,035**	2,901	**-**	-
Other receivables	**5**	155	**-**	-
Receivables from related parties (note 32)	**-**	-	**9,604**	9,303
	24,051	26,713	**9,604**	9,303

All of the above amounts are due within one year.

Receivables from related parties are repayable on demand. Included within receivables from related parties is a loan to Banner Business Services Limited of £4,300,000 upon which interest is charged at a rate of 1.75% (2008: 1.75%) per annum above Bank of England base rate. Interest is not charged on the other balances.

There is no difference between the amounts disclosed above and their fair values.

Credit risk in respect to trade receivables is limited due to the Group's customers being predominantly comprised of large companies and public sector entities. As a result, the Directors consider that no further credit risk provision is required in excess of the normal provision for doubtful receivables.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Sterling	**23,237**	25,573	**9,604**	9,303
Euro	**814**	1,140	**-**	-
	24,051	26,713	**9,604**	9,303

Group

Trade receivables that are less than 2 months past due, amounting to £10,455,000 (2008: £10,351,000), are not considered impaired as amounts within this category generally relate to a number of independent customers for which there is no recent history of default. As of 31 December 2009, trade receivables of £8,155,000 (2008: £11,821,000) were past due but not impaired. The ageing analysis of these trade receivables (by reference to due date) is as follows:

	2009 £000	2008 £000
Up to 1 month past due	**6,108**	9,353
1 to 2 months past due	**2,047**	2,468
	8,155	11,821

As of 31 December 2009, trade receivables of £2,710,000 (2008: £3,506,000) were impaired and partially provided for. The amount of the provision against such impaired trade receivables was £1,309,000 as of 31 December 2009 (2008: £2,021,000). The individually impaired receivables mainly relate to issues arising from the current economic climate. The ageing of these receivables is as follows:

	2009 £000	2008 £000
0 to 3 months overdue	**660**	1,273
3 to 6 months overdue	**761**	661
Over 6 months overdue	**1,289**	1,572
	2,710	3,506

Movements on the Group provision for impairment of trade receivables are as follows:

	2009 £000	2008 £000
At 1 January	**2,021**	772
Arising on business combinations (note 31)	**-**	1,070
Increase in provision for receivables impairment	**60**	474
Receivables written off during the year as uncollectable	**(772)**	(295)
At 31 December	**1,309**	2,021

The creation and release of provision for impaired receivables have been included in 'cost of sales' in the consolidated income statement. Amounts charged to the provision are written off when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The other classes within trade and other receivables do not contain impaired assets and management consider the credit quality of these assets as good.

Company

The Company has no trade receivables (2008: £nil).

18. Cash and cash equivalents

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash at bank and in hand	**5,987**	2,691	**1**	159

The effective average interest rate on overnight deposits for the year ended 31 December 2009 was 0.9% (2008: 5.4%).

Cash, cash equivalents and bank overdrafts include the following for the purpose of the cash flow statement:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash at bank and in hand	**5,987**	2,691	**1**	159
Bank overdrafts (note 20)	**(7,425)**	(6,697)	**-**	-
	(1,438)	(4,006)	**1**	159

19. Trade and other payables

	Group		Company	
	2009 £000	2008* £000	2009 £000	2008 £000
Trade payables	**(23,560)**	(28,111)	**-**	-
Social security and other taxes	**(2,797)**	(2,802)	**-**	-
Accrued expenses and deferred income	**(10,290)**	(10,042)	**(24)**	(25)
Payables to related parties (note 32)	**-**	-	**(1)**	(1)
	(36,647)	(40,955)	**(25)**	(26)

* Restated to reflect fair value adjustments arising on acquisitions made in the period ended 31 December 2008 (note 31).

20. Borrowings

	Group	
	2009 £000	2008 £000
Non-current		
Bank borrowings	**(22,500)**	(25,000)
Finance leases	**(993)**	(374)
	(23,493)	(25,374)
Current		
Bank borrowings	**(2,500)**	-
Bank overdrafts	**(7,425)**	(6,697)
Finance leases	**(385)**	(281)
	(10,310)	(6,978)
Total borrowings	**(33,803)**	(32,352)

The Company does not have any borrowings (2008: £nil).

Bank borrowings

Bank borrowings mature in 2013 and bear interest at a floating rate in the range of 95 to 125 basis points above LIBOR. Bank borrowings are secured by an all assets debenture and a cross company guarantee on all assets of the Group. The Company forms part of the cross guarantee structure.

The bank overdraft represents cash book overdrafts.

The repayment profile of bank borrowings (including overdrafts) is as follows:

	Bank borrowings	
	2009 £000	2008 £000
Within one year or on demand	**(9,925)**	(6,697)
Between one and two years	**(2,500)**	(2,500)
Between two and three years	**(7,500)**	(2,500)
Between three and four years	**(12,500)**	(7,500)
Between four and five years	**-**	(12,500)
	(32,425)	(31,697)

The borrowings are denominated in sterling.

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Bank borrowings	**(22,500)**	(25,000)	**(21,922)**	(25,096)

The fair value of the current borrowings equals their carrying amounts, as the impact of discounting is not significant. The fair values of bank borrowings are based on cash flows discounted using a rate based on the market rate at 31 December 2009 of 5.7%.

Undrawn committed borrowing facilities

	2009 £000	2008 £000
Gross undrawn committed confidential invoice discounting facility	**20,000**	20,000
Cash book overdraft	**(7,425)**	(6,697)
Net undrawn facilities	**12,575**	13,303

As at 31 December 2009 the Group has a committed but undrawn confidential invoice discounting facility of £20,000,000 (2008: £20,000,000), subject to sufficient security from trade receivables. The facility is at a floating rate and is due for renewal in April 2013.

As at 31 December 2009, the Group had not drawn against its committed invoice discounting facility. At that date the Group had a cash book overdraft of £7,425,000 (2008: £6,697,000). If all payments had cleared on the day of issue the Group would have had net undrawn facilities of £12,575,000 (2008: £13,303,000).

Finance leases

The fair value of the Group's lease obligations approximate to their carrying value.

Total aggregate future minimum lease payments under finance leases, together with the future finance charges and present value of the net minimum lease payments are as follows:

Group	Minimum lease payments	
	2009 £000	2008 £000
Within one year	**427**	324
In more than one year, but not more than five years	**1,063**	408
In more than five years	**-**	6
	1,490	738

	Future finance charges	
	2009 £000	2008 £000
Within one year	**42**	43
In more than one year, but not more than five years	**70**	40
In more than five years	**-**	-
	112	83

	Net minimum lease payments	
	2009 £000	2008 £000
Within one year	**385**	281
In more than one year, but not more than five years	**993**	368
In more than five years	**-**	6
	1,378	655

Finance leases are secured upon the assets to which the lease agreement relates.

21. Financial instruments by category

Cash and cash equivalents and trade and other receivables (excluding prepayments) are classified as loans and receivables for the purpose of IFRS 7.

Borrowings, finance leases and trade and other payables (excluding statutory liabilities) are classified as other financial liabilities at amortised cost for the purpose of IFRS 7.

22. Current income tax liabilities

	Group		Company	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Current income tax liabilities	**(931)**	(1,557)	**-**	-

23. Provisions

	Property dilapidations £000	Onerous leases £000	Total £000
At 1 January 2009	(655)	(1,488)	(2,143)
Charged/(credited) to the income statement:			
- Additional provisions	(52)	(1,602)	(1,654)
- Unwinding of discount	-	(11)	(11)
- Utilised during the year	53	1,563	1,616
At 31 December 2009	**(654)**	**(1,538)**	**(2,192)**

Maturity profile of provisions	**2009 £000**	2008 £000
Current	**(919)**	(322)
Non-current	**(1,273)**	(1,821)
At 31 December	**(2,192)**	(2,143)

Property dilapidations relate to the expected cost for making good leased properties at the end of their lease. The provision relates to various properties with different lease end dates ranging between one and ten years.

Onerous leases relate to the future cost of historic lease obligations whereby the Group has no future economic benefit from the lease. These leases have varying end dates between one and three years.

Company

The Company has no provisions (2008: £nil).

24. Retirement benefit liability

Group

The Group is the contributing employer to a defined benefit pension scheme, The Banner Business Supplies Pension Scheme (BBS scheme), all the members of which were formerly employed by Her Majesty's Stationery Office and were members of the Principal Civil Service Pension Scheme who first elected to transfer funds accrued to The Stationery Office Limited Scheme and subsequently elected to transfer funds accrued to the BBS scheme.

The BBS scheme commenced on 1 August 2000 when the funds were transferred in by The Stationery Office Limited. The scheme is funded by the payment of contributions to a separately administered trust fund. The scheme currently has 162 members and is closed to new members.

The latest full actuarial valuation was carried out on 31 July 2008 and updated to 31 December 2009 by Mercer LLC, a qualified independent actuary. The pension costs have been determined on the basis of the results of this valuation.

The fair value of the BBS scheme assets at 31 December 2009 amounted to £9,181,000 (2008: £7,128,000).

Group contributions in respect of the defined benefit pension scheme for the period were £537,000 (2008: £318,000). Group contributions in 2010 are expected to be approximately £545,000.

The Group also incurred £625,000 (2008: £558,000) in respect of Group personal pension arrangements and employees' own personal pension arrangements for staff recruited by The Stationery Office Limited and Group companies since 30 September 1996 at rates varying between 6% and 15% of pensionable earnings.

The outstanding accrual in respect of defined contribution pension contributions at 31 December 2009 was £364,000 (2008: £342,000).

The amounts recognised in the balance sheet in respect of the BBS scheme are determined as follows:

	2009 £000	2008 £000
Present value of funded obligations	**(12,762)**	(10,487)
Fair value of plan assets	**9,181**	7,128
	(3,581)	(3,359)
Unrecognised actuarial losses	**2,687**	2,315
Liability in the balance sheet	**(894)**	(1,044)

The amounts included in the fair value of plan assets are as follows:

	2009 Expected return p.a.	2008 Expected return p.a.	**2009 £000**	2008 £000
Equities	**7.5%**	6.9%	**7,814**	5,691
Bonds	**4.5%**	3.9%	**771**	627
Property	**6.5%**	6.9%	**46**	30
Other	**0.3%**	1.5%	**550**	780
			9,181	7,128

The amounts recognised in the income statement are as follows:

	2009 £000	2008 £000
Current service cost	**(189)**	(256)
Scheme interest cost	**(579)**	(578)
Expected return on plan assets	**444**	605
Amortisation of unrecognised loss	**(63)**	-
Expenses recognised in the income statement as administrative expenses	**(387)**	(229)

The movement in the fair value of plan assets is as follows:

	2009 £000	2008 £000
Fair value of plan assets at 1 January	**7,128**	8,542
Expected return on plan assets	**444**	605
Actuarial gains/(losses)	**1,172**	(2,283)
Employer contribution	**537**	318
Member contributions	**87**	104
Benefits paid	**(187)**	(158)
Fair value of plan assets at 31 December	**9,181**	7,128

The movement in the defined benefit obligation is as follows:

	2009 £000	2008 £000
Defined benefit obligations at 1 January	**(10,487)**	(10,413)
Current service cost	**(189)**	(256)
Interest cost	**(579)**	(578)
Member contributions	**(87)**	(104)
Actuarial (losses)/gains	**(1,607)**	706
Benefits paid	**187**	158
Present value of funded obligations at 31 December	**(12,762)**	(10,487)

The principal actuarial assumptions were as follows:

	2009 %pa	2008 %pa
Discount rate	**5.7**	5.5
Expected rate of return on plan assets	**6.8**	6.1
Future salary increases	**3.6**	2.9
Future pension increases	**3.6**	2.9
Inflation	**3.6**	2.9

The expected return on plan assets for 2010 is based on market conditions at 31 December 2009 for returns over the entire life of the obligation.

	2009 £000	2008 £000
Actual return on plan assets	**1,616**	(1,678)

The weighted average life expectancy derived from mortality tables used to determine benefit obligations were:

	2009 Years	2008 Years
Male member aged 65 (current life expectancy)	**22.0**	22.0
Female member aged 65 (current life expectancy)	**24.9**	24.9
Male member aged 45 (life expectancy at age 65)	**23.1**	23.1
Female member aged 45 (life expectancy at age 65)	**25.9**	25.9

History of experience gains and losses:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of funded obligations	**(12,762)**	(10,487)	(10,413)	(9,587)	(8,768)
Fair value of plan assets	**9,181**	7,128	8,542	7,651	6,323
Deficit in the plan	**(3,581)**	(3,359)	(1,871)	(1,936)	(2,445)
Difference between expected and actual return on scheme assets:					
Amount (£000)	**1,172**	(2,283)	(102)	417	744
Percentage of scheme assets	**13%**	(32%)	(1%)	5%	12%
Experience gains and losses on scheme liabilities:					
Amount (£000)	**-**	(199)	(436)	14	180
Percentage of scheme liabilities	**0%**	(2%)	(4%)	0%	2%

At 31 December 2009, the unrecognised actuarial losses were in excess of 10% of the present value of the funded obligations. Accordingly under IAS 19 the Group will amortise the unrecognised actuarial losses over the average remaining working lives of the members of the scheme commencing in the year ended 31 December 2010.

Company

The Company has no retirement benefit liabilities (2008: £nil).

25. Ordinary shares

	2009		2008	
Authorised	**No.**	**£**	No.	£
Ordinary shares of 1p each	**50,000,000**	**500,000**	50,000,000	500,000

	2009		2008	
Issued and fully paid	**No.**	**£**	No.	£
Ordinary shares of 1p each	**36,308,984**	**363,090**	36,308,984	363,090

514,348 Ordinary shares are held by the EBT (2008: 582,295), for which the right to receive dividends has been waived.

26. Share options

	Number 1 Jan 09	Number granted	Number exercised	Number expired	**Number 31 Dec 09**	Exercise price per share	Exercisable from	Expiry date
Senior managers' scheme								
Date granted								
October 2004	50,000	-	(50,000)	-	-	1.0p	08.10.06	08.10.14
Managers' scheme								
Date granted								
October 2004	6,954	-	(6,954)	-	-	1.0p	08.10.06	08.10.14
Performance share plan								
Date granted								
December 2005	49,918	-	(12,769)	(37,149)	-	0.1p	21.12.08	21.06.09
April 2006	70,008	-	-	(70,008)	-	0.1p	24.04.09	24.10.09
September 2007	232,907	-	-	-	**232,907**	0.1p	11.09.10	11.03.11
December 2007	189,566	-	-	-	**189,566**	0.1p	01.04.11	01.10.11
April 2008	636,705	-	-	(94,056)	**542,649**	0.1p	24.04.11	24.10.11
June 2008	89,740	-	-	(89,740)	-	0.1p	30.06.11	30.10.11
March 2009	-	160,606	-	-	**160,606**	0.1p	04.03.12	04.09.12
April 2009	-	601,215	-	(231,148)	**370,067**	0.1p	30.04.12	30.10.12
Executive bonus plan								
Date granted								
December 2005	33,851	-	(8,152)	(25,699)	-	0.1p	21.12.08	21.06.09
April 2006	30,857	-	-	(30,857)	-	0.1p	24.04.09	24.10.09
SAYE scheme								
Date granted								
October 2004 (5yr)	146,149	-	-	(20,218)	**125,931**	171.6p	01.12.09	31.05.10
October 2005 (5yr)	9,896	-	-	(717)	**9,179**	224.4p	11.11.10	11.05.11
April 2008 (3yr)	255,424	-	-	(71,047)	**184,377**	119.4p	08.04.11	08.10.11
April 2008 (5yr)	188,512	-	-	(61,903)	**126,609**	119.4p	08.04.13	08.10.13
	1,990,487	761,821	(77,875)	(732,542)	**1,941,891**			

Options which expired in the year to 31 December 2009 reflected employees leaving the Group, non-achievement of performance conditions and the expiry of the term of exercise.

At 31 December 2009, there were no members (2008: 1 member) of the senior managers' scheme; there were no members (2008: 2 members) of the managers' scheme; there were 10 members with an average option holding of 149,580 (2008: 9 members) of the performance share plan; there were no members (2008: 3 members) of the executive bonus plan; there were 135 members with average holdings of 3,304 (2008: 180 members) of the Save-As-You-Earn (SAYE) scheme.

The senior managers' scheme was introduced on 8 October 2004 to reward key employees for their contribution to the enhancement of the Group's longer term future and their commitment to the Group over a sustained period. There are no performance conditions attached. 50,000 options were exercised during the year under review. The weighted average share price as at the date of exercise was 101.00p per share.

The managers' scheme was introduced on 8 October 2004 to encourage and reward managers for their continued contribution to the Group's success. Financial performance conditions apply to the exercise of the options based on profit expectations set by the Board. 6,954 options were exercised during the year under review. The weighted average share price as at the date of exercise was 105.83p per share.

The performance share plan and executive bonus plan were introduced on 21 December 2005 to incentivise senior management relative to the long term strategy of the Group. Financial performance conditions apply to exercise of the options, based on a comparative measure of total shareholder return against the companies in the FTSE Small Cap Index, and the Company's earnings per share growth. On 4 March 2009 and 30 April 2009, awards were granted over 761,821 shares based on a weighted average share price, of the three days prior to award, of 103.00p per share. 20,921 options were exercised during the year under review. The weighted average share price as at the date of exercise was 78.25p per share. The weighted average remaining contractual life is 1.6 years.

The SAYE scheme was first introduced in October 2004. The exercise price is determined at a 20% discount to the closing mid-market price on the date of invitation. The schemes have either a three or five year vesting period. The weighted average remaining contractual life is 1.5 years.

The IFRS 2 and associated national insurance costs, before tax, incurred in relation to the above schemes were as follows:

	2009 IFRS 2 £000	2009 NI £000	2008 IFRS 2 £000	2008 NI £000
Senior managers' scheme				
Date granted				
October 2004	-	(4)	-	(14)
Managers' scheme				
Date granted				
October 2004	-	(1)	-	(2)
Performance share plan				
Date granted				
December 2005	(28)	-	(10)	(8)
April 2006	(34)	1	5	(5)
September 2007	83	22	85	4
December 2007	40	16	38	5
April 2008	153	40	65	(6)
June 2008	(14)	(8)	14	7
March 2009	18	7	-	-
April 2009	45	9	-	-
Executive bonus plan				
Date granted				
December 2005	-	2	13	(2)
April 2006	(9)	1	10	(1)
SAYE scheme				
Date granted				
October 2004 (3yr)	-	-	(178)	-
October 2004 (5yr)	1	-	13	-
October 2005 (3yr)	-	-	(36)	-
October 2005 (5yr)	1	-	(7)	-
October 2008 (3yr)	16	-	23	-
October 2008 (5yr)	6	-	10	-
	278	85	45	(22)

The following valuation assumptions have been applied:

Senior managers' scheme – October 2004 option value information	
Fair value per option*	£2.04
Valuation assumptions	
Expected option term	2 years
Expected volatility	27.1%
Expected dividend yield	3.7%
Risk free interest rate	4.69%
Managers' scheme – October 2004 option value information	
Fair value per option*	£2.04
Valuation assumptions	
Expected option term	2 years
Expected volatility	27.1%
Expected dividend yield	3.7%
Risk free interest rate	4.69%
Performance share plan – December 2005 option value information	
Fair value per option**	£1.06
Valuation assumptions	
Expected option term	4 years
Expected volatility	26.0%
Expected dividend yield	3.6%
Risk free interest rate	4.22%
Performance share plan – April 2006 option value information	
Fair value per option**	£0.98
Valuation assumptions	
Expected option term	4 years
Expected volatility	26.5%
Expected dividend yield	4.0%
Risk free interest rate	4.55%
Performance share plan – September 2007 option value information	
Fair value per option**	£1.07
Valuation assumptions	
Expected option term	3.25 years
Expected volatility	26.7%
Expected dividend yield	5.0%
Risk free interest rate	4.92%
Performance share plan – December 2007 option value information	
Fair value per option**	£0.63
Valuation assumptions	
Expected option term	3.5 years
Expected volatility	30.2%
Expected dividend yield	7.8%
Risk free interest rate	4.63%
Performance share plan – April 2008 option value information	
Fair value per option**	£0.96
Valuation assumptions	
Expected option term	3.25 years
Expected volatility	35.4%
Expected dividend yield	5.8%
Risk free interest rate	4.0%
Performance share plan – June 2008 option value information	
Fair value per option**	£1.12
Valuation assumptions	
Expected option term	3.25 years
Expected volatility	36.1%
Expected dividend yield	5.9%
Risk free interest rate	4.0%

Performance share plan – March 2009 option value information	
Fair value per option**	£0.83
Valuation assumptions	
Expected option term	3.25 years
Expected volatility	48.2%
Expected dividend yield	12.3%
Risk free interest rate	1.10%
Performance share plan – April 2009 option value information	
Fair value per option**	£1.05
Valuation assumptions	
Expected option term	3.25 years
Expected volatility	49.4%
Expected dividend yield	10.4%
Risk free interest rate	1.10%
Executive bonus plan – December 2005 option value information	
Fair value per option**	£1.06
Valuation assumptions	
Expected option term	4 years
Expected volatility	26.0%
Expected dividend yield	3.6%
Risk free interest rate	4.22%
Executive bonus plan – April 2006 option value information	
Fair value per option**	£0.98
Valuation assumptions	
Expected option term	4 years
Expected volatility	26.5%
Expected dividend yield	4.0%
Risk free interest rate	4.55%
SAYE 5 year scheme – October 2004 option value information	
Fair value per option*	£0.70
Valuation assumptions	
Expected option term	5.25 years
Expected volatility	34.1%
Expected dividend yield	3.9%
Risk free interest rate	4.76%
SAYE 5 year scheme – October 2005 option value information	
Fair value per option*	£0.89
Valuation assumptions	
Expected option term	5.25 years
Expected volatility	30.1%
Expected dividend yield	3.2%
Risk free interest rate	4.32%
SAYE 3 year scheme – April 2008 option value information	
Fair value per option*	£0.36
Valuation assumptions	
Expected option term	3.25 years
Expected volatility	34.6%
Expected dividend yield	6.6%
Risk free interest rate	4.0%
SAYE 5 year scheme – April 2008 option value information	
Fair value per option*	£0.34
Valuation assumptions	
Expected option term	5.25 years
Expected volatility	31.8%
Expected dividend yield	6.6%
Risk free interest rate	4.51%

* Estimated using Black-Scholes option pricing method.
** Estimated using the Monte-Carlo simulation and Black-Scholes option pricing methods.

Expected volatility was determined by reference to historic share price information of similar companies.

All of the above relate to equity settled share-based payment transactions.

27. Reserves

	Group				Company	
	Share premium account £000	Other reserves £000	Retained earnings £000	Minority interest £000	Share premium account £000	Retained earnings £000
Balance at 1 January 2008	5,009	46	11,489	-	5,009	11,109
Foreign exchange differences	-	240	-	-	-	-
Profit for the year	-	-	6,612	-	-	4,276
Employee share options:						
- value of employee services	-	-	45	-	-	23
- deferred tax on share options	-	-	(5)	-	-	-
Sale of shares by EBT	-	-	37	-	-	37
Dividends	-	-	(3,676)	-	-	(3,676)
Balance at 31 December 2008	**5,009**	**286**	**14,502**	**-**	**5,009**	**11,769**
Foreign exchange differences	-	(90)	-	-	-	-
Profit for the year	-	-	6,138	196	-	4,103
Employee share options:						
- value of employee services	-	-	278	-	-	363
- deferred tax on share options	-	-	64	-	-	-
Sale of shares by EBT	-	-	10	-	-	10
Dividends	-	-	(3,969)	-	-	(3,969)
Balance at 31 December 2009	**5,009**	**196**	**17,023**	**196**	**5009**	**12,276**

Share premium account

The share premium account represents the difference between the nominal value of the shares issued and the amount received for them. This is a non-distributable reserve.

Other reserves

Other reserves relate to foreign exchange translation differences on the net assets of overseas subsidiaries. This is a non-distributable reserve.

Minority interests

As described in note 14, the Company owns 60% of the £10 called up share capital of Banner Document Services Limited.

28. Cash generated from/(used in) operations

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Profit before income tax	**8,123**	9,607	**4,103**	4,276
Adjustments for:				
Amortisation of intangible assets	**999**	624	**-**	-
Depreciation of property, plant and equipment	**978**	854	**-**	-
Loss on disposal of property, plant and equipment	**329**	-	**-**	-
Finance income	**-**	(190)	**(103)**	(276)
Finance costs	**856**	1,549	**-**	-
Income from investments	**-**	-	**(4,000)**	(4,000)
Share option expense	**278**	45	**-**	-
Decrease /(increase) in inventories	**1,959**	(898)	**-**	-
Decrease/(increase) in trade and other receivables	**2,662**	5,352	**(301)**	(441)
Decrease in trade and other payables and provisions	**(4,499)**	(11,307)	**(1)**	-
Cash generated from/(used in) operations	**11,685**	5,636	**(302)**	(441)

29. Analysis of movement in net (debt)/cash

Group

	At 1 January 2009 £000	Cash flow £000	Non-cash movements £000	At 31 December 2009 £000
Cash at bank and in hand	2,691	3,296	-	**5,987**
Bank overdrafts	(6,697)	(728)	-	**(7,425)**
	(4,006)	2,568	-	**(1,438)**
Term loan - current	-	-	(2,500)	**(2,500)**
Finance leases – current	(281)	337	(441)	**(385)**
Total current debt	(4,287)	2,905	(2,941)	**(4,323)**
Term loan – non-current	(25,000)	-	2,500	**(22,500)**
Finance leases – non-current	(374)	-	(619)	**(993)**
Total non-current debt	(25,374)	-	1,881	**(23,493)**
Net debt	(29,661)	2,905	(1,060)	**(27,816)**

Group

	At 1 January 2008 £000	Cash flow £000	Business combinations £000	Non-cash movements £000	At 31 December 2008 £000
Cash at bank and in hand	6,963	(4,272)	-	-	**2,691**
Bank overdrafts	-	(6,697)	-	-	**(6,697)**
	6,963	(10,969)	-	-	**(4,006)**
Finance leases – current	(177)	219	(107)	(216)	**(281)**
Total current funds/(debt)	6,786	(10,750)	(107)	(216)	**(4,287)**
Term loan – non-current	-	(12,387)	(12,613)	-	**(25,000)**
Finance leases – non-current	(410)	-	(150)	186	**(374)**
Total non-current debt	(410)	(12,387)	(12,763)	186	**(25,374)**
Net debt	6,376	(23,137)	(12,870)	(30)	**(29,661)**

Non-cash movements relates to the movement of finance leases and movements in the term loan between non-current and current and new finance lease agreements taken out during the year.

Company

	At 1 January 2009 £000	Cash flow £000	At 31 December 2009 £000
Cash at bank and in hand	159	(158)	**1**

Company

	At 1 January 2008 £000	Cash flow £000	At 31 December 2008 £000
Cash at bank and in hand	1	158	**159**

30. Guarantees and other financial commitments

Bank guarantees

The Company is a member of the Group banking arrangement under which it is party to unlimited cross-guarantees in respect of the banking facilities of other Group undertakings, amounting to £25,000,000 (2008: £25,000,000) subject to facility at 31 December 2009. The Directors do not expect any material loss to the Company to arise in respect of the guarantees.

Operating lease commitments

Group	Land and buildings		Other	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Total commitments under non-cancellable operating leases payable in respect of leases expiring:				
No later than one year	**1,591**	1,769	**1,280**	1,717
Later than one year and no later than five years	**4,229**	4,848	**1,777**	2,059
Later than five years	**206**	2,086	**-**	-
	6,026	8,703	**3,057**	3,776

Company

The Company has no obligations under operating leases (2008: none).

31. Business combinations

Restatement arising from prior year business contributions

On 15 May 2008, the Group acquired control of TripleArc plc for a consideration of £13,769,000, including costs. TripleArc plc is the parent company of the AccessPlus Group. AccessPlus provides business process outsourcing to companies looking to reduce the costs of their print marketing and communication.

The acquisition of TripleArc plc has been accounted for using the acquisition method of accounting.

The fair values of assets and liabilities acquired relating to TripleArc plc were as follows:

	Carrying amount £000	Fair value adjustment £000	Final fair value £000
Customer relationships	-	4,468	4,468
Brands	-	3,200	3,200
Software	-	103	103
Goodwill	34,640	(34,640)	-
Property, plant and equipment	1,516	(268)	1,248
Deferred tax asset	107	(28)	79
Inventories	889	(207)	682
Trade and other receivables	10,174	(103)	10,071
Trade and other payables	(16,940)	(4,322)	(21,262)
Deferred income tax liability	-	(2,147)	(2,147)
Current income tax liability	(116)	116	-
Bank overdraft	(1,000)	-	(1,000)
Bank loans	(12,613)	-	(12,613)
Obligations under finance leases	(197)	-	(197)
Net liabilities assumed			(17,368)
Satisfied by:			
Cash consideration			12,486
Directly attributable costs			1,283
			13,769
Goodwill arising			31,137
Net cash outflow arising on acquisition:			
Cash consideration			(12,486)
Directly attributable costs			(1,283)
Bank overdraft			(1,000)
Bank loans			(12,613)
			(27,382)

The fair value adjustments relate to the alignment of the accounting policies to those of the Group, adjustments to accrue for liabilities relating to the period prior to the acquisition and the recognition of intangible assets in connection with customer relationships, brands and software.

The goodwill arising on the acquisitions is primarily attributable to cost synergies arising from the combination.

	£000
Goodwill provisionally recognised at 31 December 2008	28,500
Finalisation of fair values	2,637
Final goodwill arising	31,137

The finalisation of fair values resulted in an increase in the fair value adjustment to trade and other payables by £490,000, deferred income tax liability by £2,147,000, resulting in an increase to goodwill of £2,637,000.

On 2 June 2008, the Group acquired control of Accord Office Supplies Limited (Accord) for a consideration of £5,855,000, including costs. Accord is an office products dealer based in the south-west of England, which supplies the mid market corporate sector.

The acquisition of Accord has been accounted for using the acquisition method of accounting.

The fair values of assets and liabilities acquired relating to Accord were as follows:

	Carrying amount £000	Fair value adjustment £000	Final fair value £000
Customer relationships	-	962	962
Brands	-	738	738
Goodwill	1,086	(1,086)	-
Property, plant and equipment	155	(10)	145
Inventories	278	-	278
Trade and other receivables	1,962	(20)	1,942
Trade and other payables	(2,406)	(33)	(2,439)
Deferred tax liability	(2)	(476)	(478)
Current income tax liability	(63)	-	(63)
Bank overdraft	(814)	-	(814)
Obligations under finance leases	(60)	-	(60)
Net assets assumed			211
Satisfied by:			
Cash consideration			5,750
Directly attributable costs			105
			5,855
Goodwill arising			5,644
Net cash outflow arising on acquisition:			
Cash consideration			(5,750)
Directly attributable costs			(105)
Bank overdraft			(814)
			(6,669)

The fair value adjustments relate to the alignment of the accounting policies to those of the Group and the recognition of intangible assets in connection with customer relationships and brands.

The goodwill arising on the acquisitions is primarily attributable to cost synergies arising from the combination.

	£000
Goodwill provisionally recognised at 31 December 2008	5,168
Finalisation of fair values	476
Final goodwill arising	5,644

The finalisation of fair values resulted in an increase in the fair value adjustment to deferred income tax liability by £476,000, resulting in an increase to goodwill by £476,000.

On 9 November 2008, the Group acquired a 60% interest in Banner Document Services Limited. The consideration of £6 was in consideration of ordinary shares at par value as the company had not commenced trading at the point of acquiring the shareholding. Banner Document Services Limited commenced trading in January 2009. Accordingly the fair value of the assets acquired equals the fair value of the consideration paid.

There were no business combinations for the year ended 31 December 2009.

Restatement of comparative balances

As a result of the finalisation of goodwill arising on the acquisitions of TripleArc Plc and Accord Office Supplies Limited, goodwill – other intangibles increased by £3,113,000, deferred income tax liabilities increased by £2,623,000 and trade and other payables increased by £490,000.

There was no material impact from these adjustments on the reported profit or net assets and accordingly no opening balance sheet was presented.

32. Related parties

Group

Directors' and key management compensations are disclosed in note 6.

Company

During the year the Company had the following transactions with its subsidiaries:

	2009 £000	2008 £000
Dividends received	4,000	4,000
Interest received	103	276
	4,103	4,276

As at the 31 December the following amounts were due to/(from) the Company from/(to) its subsidiaries:

	2009 £000	2008 £000
Banner Business Services Limited	9,604	9,303
Banner Business Services (Ireland) Limited	(1)	(1)
	9,603	9,302

Other than disclosed above, all movements in balances due to and from related parties relate to the movement of cash and other working capital transactions between Group companies.

33. Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

34. Post balance sheet events

On 1 February 2010, the Group acquired the trade and assets of Martin Luck Newbury, a trading branch of Martin Luck Limited, for a consideration of £300,000 (of which £75,000 being deferred consideration).

On 17 February 2010, the Group acquired the trade and certain assets of the business process outsourcing division of The Print Factory (1991) Limited (in administration) and The DSR Group Limited (in administration) for a consideration of £700,000.

Due to the recent completion of both transactions the full financial effect of both transactions have not been fully determined at the date of these accounts.

Five Year Summary

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Revenue	**187,464**	180,999	167,862	165,897	150,897
Operating profit - before amortisation, exceptional costs and share option expenses	**13,986**	13,425	11,694	11,872	11,534
Amortisation	**(999)**	(624)	-	-	-
Exceptional and non-recurring costs	**(3,645)**	(1,812)	(2,333)	(392)	-
Share option expense	**(363)**	(23)	(243)	(768)	(869)
Operating profit	**8,979**	10,966	9,118	10,712	10,665
Net interest payable	**(856)**	(1,359)	(115)	(367)	(430)
Profit before tax	**8,123**	9,607	9,003	10,345	10,235
Capital employed:					
Shareholder funds	**22,591**	20,160	16,907	14,833	10,288
Statistics:					
Underlying earnings per Ordinary share*	**27.1p**	24.1p	22.0p	20.9p	20.2p
Basic earnings per Ordinary share	**17.2p**	18.5p	17.4p	20.2p	20.2p
Diluted earnings per Ordinary share	**17.1p**	18.5p	17.3p	19.7p	19.7p
Dividends per share	**11.4p**	11.0p	10.0p	9.6p	9.3p
Share price (period end)	**145.5p**	65.5p	119.5p	243.5p	260.0p

*Underlying earnings per Ordinary share, before the after tax effect of exceptional and non-recurring costs, amortisation and share option expense, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

Shareholder Information

Financial calendar 2010

Announcement of final results for the year ended 31 December 2009	**25 March 2010**
Annual General Meeting	**18 May 2010**
Payment of final dividend on Ordinary shares to shareholders on the share register at the close of business on 23 April 2010	**21 May 2010**

Registrar and transfer office

Enquiries about administrative matters relating to shareholding and dividends should be addressed to the Company's registrars.

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or by email to: ssd@capitaregistrars.com

Share price

Information concerning the day to day movement of the share price of the Company can be found on our website www.office2office.co.uk or that of the London Stock Exchange www.prices.londonstockexchange.com. The share price can also be found in the appropriate sections of national newspapers under the classification 'Support Services' and under the ticker code 'OFF.L' or 'OFF'.

Unsolicited mail

As the Company's share register is, by law, open to public inspection, shareholders may receive unsolicited mail from organisations that use it as a mailing list.
To reduce the amount of unsolicited mail you receive, contact:

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