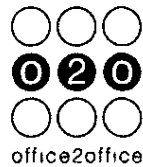


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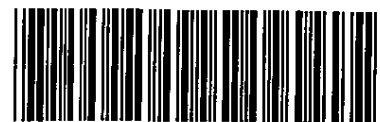


office2office plc

Annual Report and Accounts 2012

Registered number 04083206

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"office2office plc (o2o) is a leading provider of office supplies and business solutions, delivering these through two key operating segments – Managed Procurement and Business Critical Services. Our focus is to provide our customers with sustainable savings through outsourcing their non-core yet essential business activities" Simon Moate, Chief Executive

Contents

Financial Highlights	1
Chairman's Statement	2 – 5
Chief Executive's Review	6 – 7
Business and Financial Review	8 – 10
Corporate Social Responsibility Statement	11 – 13
Board of Directors	14
Directors' Report	15 – 18
Corporate Governance Statement	19 – 22
Nomination Committee Report	23
Audit Committee Report	23 – 24
Directors' Remuneration Report	25 – 29
Independent Auditors' Report to the members of office2office plc	30 – 31
Consolidated Income Statement	32
Consolidated Statement of Comprehensive Income	33
Consolidated and Company Balance Sheets	34
Consolidated Statement of Changes in Equity	35
Company Statement of Changes in Equity	36
Consolidated and Company Statements of Cash Flows	37
Significant Accounting Policies	38 – 44
Notes to the Financial Statements	45 – 74
Five Year Summary	75
Company Income Statement	76
Shareholder Information	77
Company Details	77

Key Financials

	2012	2011
Revenue	£227.3m	£193.5m
Profit before tax	£0.7m	£4.3m
Basic earnings per share	0.9p	12.0p
Underlying profit before tax ¹	£6.5m	£8.4m
Underlying earnings per share ²	13.4p	20.7p
Operating cash flow	£6.5m	£10.9m
Net debt	£29.0m	£27.7m
Final dividend proposed	£1.3m 3.6p per share	£2.8m 7.8p per share
Total dividend for the year	£2.6m 7.2p per share	£4.1m 11.4p per share

¹ Profit before tax, non-recurring costs of £4.0m (2011: £2.4m), £0.5m share option charges (2011: £0.4m) and amortisation of intangibles of £1.2m (2011: £1.3m) (refer to the Consolidated Income Statement on page 32 and note 5 on non-recurring costs/(credits))

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

Chairman's Statement

In 2012, we grew Group revenue by 17% to £227.3m (2011: £193.5m). At the same time:

- within Managed Procurement, Banner Business Services (BBS) secured market share and out-performed contracted office products market competitors while broadly maintaining gross profit margins;
- we fully implemented the Government Office Supplies Contract (GOSC) thereby expanding the number of Government departments that BBS serves;
- we developed a new supply relationship with an office products wholesale chain; and
- we continued to grow Business Critical Services.

Unfortunately, these positive steps did not prevent underlying profit falling to £6.5m (2011: £8.4m). The principal causes of the profit reduction were confined to Managed Procurement:

- reduced trading across the contracted office products industry impacted the Company as well as our competitors. In BBS, our relatively higher margin contracted office products business, revenue fell to £121.1m (2011: £126.6m) and was disappointing throughout most of the second half of the year particularly during the Jubilee celebrations, the Olympic and Paralympic games and in the latter part of December, when demand fell away earlier and more markedly than we have seen before; and
- an increase in distribution cost in line with increased revenue following implementation of the Advantia contract and a consistent change in customer demand patterns to more frequent but lower value deliveries.

There were insufficient opportunities to compensate for these issues within the year from activity elsewhere in the Group.

Profit before tax fell to £0.7m (2011: £4.3m) after non-recurring costs of £4.0m (2011: £2.4m) as detailed in the Business and Financial Review and note 5 of the financial statements.

In spite of the lower profits, net debt was held broadly in line with the previous year at £29.0m (2011: £27.7m).

The growth in revenue was driven by

- Managed Procurement, where revenue grew by £19.9m to £147.7m (2011: £127.8m), reflecting the launch of the relatively lower margin Truline business with revenue of £26.6m (2011: £1.2m), and
- Business Critical Services, where revenue grew by £13.9m to £79.6m (2011: £65.7m). While adversely impacted to some extent by the summer celebrations, the full year benefit of contracts won in 2011 came on top of some contribution from new contracts secured with Best Buy Europe (Carphone Warehouse), Friends Life and Hastings Direct during 2012 with expected full year revenues totalling £18m.

Towards the end of 2012, we won a three year sole-supply contract with The Royal Bank of Scotland Group (RBS) which is being served from our existing capabilities with only marginal working capital investment. This contract has been fully implemented and has been trading in line with expectations since commencement on 1 February 2013.

Trading across the Group in the first quarter of 2013 has been in line with management expectation. BBS sales rates have recovered although it is too early to say whether this is a trend or as a result of re-stocking after the second half of last year. In all other parts of the Group, activity is in line with our plans.

Business strategy

Background

Our long term goal is to build a business which is resilient to economic uncertainties and changes in workplace practices. In 2007, we recognised the likely long term decline in the contracted office products market and have since followed a diversification strategy and business change programme to lessen our reliance on office product supply contracts by

- acquiring and developing complementary services and activities,
- expanding product ranges, and
- widening our customer base by extending into new market areas.

Since the start of 2007, we have invested c£55m in business acquisition and start-up through business

purchase, non-recurring charges to the profit & loss account and working capital growth. To do this we have relied only on operational cash flow and broadly consistent net debt levels. A further £4m has been allocated to capital expenditure and £7m has been spent restructuring the existing business to improve business efficiency by reducing the underlying cost base in response to changes in economic conditions.

Managed Procurement

The principal business in the Managed Procurement segment is BBS, our relatively higher margin contracted office products business. Our strategy has been to combat decline in the market by retaining our existing customers through excellent service and winning new business at the expense of competitors, while, at the same time, protecting margin. A major achievement was to be appointed, under commercially viable terms, to GOSC, as sole provider of office products and Closed Loop™ services to the UK Central Government. This followed our withdrawal from the uneconomic supply to the MoD in 2007.

Using the existing Managed Procurement infrastructure, we established Truline in 2011 to allow us to grow in the SME office products market by providing a comprehensive office products supply service to an established independent office products dealer group. This supply chain service has Group operations as key customers and is a growing contributor to Group revenue. In 2012, Truline's third party sales at £26.6m (2011: £1.2m) accounted for 18% of Managed Procurement's revenue.

Business Critical Services

The Business Critical Services segment was formed in 2008 and comprises activities which complement our office products business. In 2012, it accounted for 35% of Group revenues and 38% of adjusted EBITA (see note 3). The two component activities are

- Banner Managed Communication (BMC) providing document and print management. This is the principal business and, in addition to opportunities in its traditional market, it has the potential to expand into a number of complementary services as customers embrace e-documents and digital media generally, and

Chairman's Statement

(continued)

- Banner Document Services (BDS) providing waste document management. This includes our innovative and patented Closed Loop™ service and is growing steadily as GOSC and other Central Government contracts are able to transfer from their existing facilities management arrangements

Group customer base

The shift in our trading emphasis has resulted in a shift in the Group's customer base, historically dominated by Government departments. By the end of 2012, 68% (2011 63%) of Group revenue was accounted for by private sector corporate customers

Business review

In summary, this broad diversification strategy and the consequent business development have, over the last 5 years, transformed o2o from a contract stationer to a leading provider of office supplies and business solutions. Furthermore we have accomplished this whilst achieving robust gross margins and delivering a quality service to our customers

During the year, the Board, with its advisors, undertook a detailed review of the business. This review concluded that whilst the UK office products market is performing badly with many participants weakened, o2o's business is relatively robust in a pressured environment. Over time some industry consolidation seems likely and whilst the Directors will continue to monitor opportunities, the currently depressed market will influence when and how any such opportunities arise

The market in which BMC operates, meanwhile, is relatively buoyant and a variety of opportunities exist to grow organically and through acquisition

Trading performance

The 2012 trading performance of the business segments and our shorter term strategy for the coming year, are discussed in more detail in the Chief Executive's Review

Results

Revenue increased by 17% to £227.3m (2011 £193.5m). Whilst gross profit increased to £59.6m (2011 £55.6m), the

overall gross margin percentage fell to 26.2% (2011 28.8%) largely owing to the anticipated lower margin sales from the Truline business

Underlying profit before tax fell to £6.5m (2011 £8.4m) and underlying earnings per share were 13.4p (2011 20.7p) owing to the increase in non-recurring items and finance costs

Profit before tax was £0.7m (2011 £4.3m) and profit after tax was £0.3m (2011 £4.3m following a small tax credit). Basic and fully diluted earnings per share were the same at 0.9p (2011 12.0p)

Cash generated from operations and net debt

Cash generated from operations reduced to £6.5m (2011 £10.9m) reflecting reduced profitability and higher finance costs following higher average levels of borrowing due to implementation costs and net working capital investment to support the start up of the Truline activity, compounded by increased borrowing costs after renegotiation of facilities in 2011. Net indebtedness increased to £29.0m (2011 £27.7m) and has been generally higher throughout the year

During the year, the Group's banking facilities were increased to £50.5m. These mature in June 2015 after staged repayments and are based on competitive terms, interest rates and arrangement fees

Dividend

The Board believes that the payment of dividends should be closely linked to affordability and the Group's trading prospects. While we remain confident about the Group's trading prospects, albeit in a challenging market, we have decided to recommend a reduced final dividend payment to reflect the current lack of earnings cover. We are also reviewing our forward dividend policy in order to ensure that we strike the best balance between promoting shareholders' short and long term interests

We recommend a final dividend of 3.6p per share (2011 7.8p). When combined with the interim dividend paid on 9 November 2012, this makes a total dividend per share of 7.2p (2011 11.4p) and amounts to a total distribution of

£2.6m (2011: £4.1m). The total dividend paid and payable for the year is not covered by earnings (2011: 1.1 times) but is covered by underlying earnings 2.5 times (2011: 2.0 times).

If approved at the annual general meeting (AGM), the final dividend will be paid on 11 July 2013 to shareholders on the register at the close of business on 17 May 2013.

Employees

Our employees have continued to work hard during another challenging year. I would like to thank our staff for keeping the momentum going and their commitment to the Group.

Board changes

We recently announced the appointment of Hugh Cawley as Group Finance Director with effect from 25 February 2013. Hugh has held a number of senior executive and financial roles where he has consistently played a key part in driving performance and strategic change.

Mark Cunningham resigned from the Board on 30 January 2013 and on behalf of the Board I thank Mark for his contribution to the Company and wish him well for the future.

Outlook

Trading across the Group in the first quarter of 2013 has been in line with management expectation. BBS sales rates have recovered and in all other parts of the Group, activity is in line with plan.

Whilst early trading in BBS has been encouraging it is too early to say whether this is a trend or as a result of re-stocking after the second half of last year. We do not conclude that the contracted office products market has recovered. Volume decline and the change in buying patterns have been apparent over recent years and, whilst our success to date in securing new contracts and maintaining margins helps to mitigate these effects, the market decline seems likely to continue.

However, we believe there remain strong prospects in our business.

- the new RBS contract came on stream in February and has been implemented without disruption or additional cost,
- our more recent Truline business is now established in the SME sector and is attracting interest from other dealers and
- the Business Critical Services segment continues to grow and provides us with opportunities to expand in a number of directions within the historic as well as the emerging digital communications markets.

Consequently, we are pleased that against the background of currently unfavourable contracted office products market conditions, o2o remains in a relatively strong position to exploit opportunities as they arise.

Publication of half yearly financial reports

With effect from this year and in accordance with DTR 4.2.2, we will publish our half yearly financial reports on our website following disclosure via a regulated news service (RNS). Hard copies will be posted to shareholders only on request.

AGM

The AGM will be held at the Company's head office, St Crispins, Duke Street, Norwich on 22 May 2013 at 9.30 a.m. Notice of the AGM is included within the annual report and financial statements and will be circulated, together with the proxy forms, for use at the AGM.

D J Callear

Chairman

25 March 2013

Chief Executive's Review

A great deal of progress has been made during the year, having delivered a robust revenue performance, notwithstanding our reporting a reduction in underlying profit.

In the first half we implemented two significant but very different Managed Procurement contracts. Operational issues were experienced and were swiftly addressed, although not without additional costs being incurred as reported previously. By the end of May the situation was fully resolved.

In the last quarter, BBS's success in winning a prestigious contract with RBS was a particular highlight. A dramatic drop in BBS sales volumes just before and over the Christmas period, however, was exacerbated by an inability to complete scheduled deliveries because of early customer business closures. Whilst we have good prospects elsewhere in the business, the proximity to year end impeded any opportunity to mitigate the adverse impact of this unusual trading period.

Managed Procurement – revenue £147.7m (2011: £127.8m); adjusted EBITA £11.2m (2011: £13.0m) *See note 3 to the financial statements*

Banner Business Services

Weak market demand, despite the benefit of GOSC, resulted in BBS revenue slipping to £121.1m (2011: £126.6m). The global office products industry has been directly affected by the recession and customer austerity measures have brought about tighter budgets, changes in the workplace and a generally increased awareness of costs. In the UK, this was exacerbated during the year by the greater than anticipated impact of a UK workforce working abnormally during the Jubilee and Olympic celebrations. In London alone, for a 5 week period, BBS sales volumes were down by some 28%, as a result of fewer people in the office workplace.

Softer revenue volumes together with a shift from higher margin non-core sales to lower margin core sales prompted early action by BBS to protect gross margin. This action was successful and gross margins were broadly held at 28.5% (2011: 28.8%).

To mitigate the impact of the continuing decline in the contracted office products market, our strategy is to continue to gain market share. Securing a multi-million pound sole-supply contract with RBS based on our open book pricing model, was a significant boost. The contract is ex-works and is serviced from the Group's existing capabilities. BBS's

significant experience of serving financial institutions paved the way for a smooth implementation of the RBS contract which went live on 1 February 2013 and is currently trading in line with expectations.

What has become apparent is that forecasting BBS sales per working day is no longer a reliable exercise. Changes in the workplace and tighter budgetary controls resulted in a higher number of low value orders during the year, leading to more volatile and unpredictable order input patterns. We are working to try and ensure that our customers, in their own interests and ours, reduce the frequency of deliveries by consolidating their requirements.

Truline

After its start up in 2011, Truline secured a four year contract to provide supply chain services to the Advantia dealership network with effect from 1 January 2012. The launch of this contract, which was effectively the simultaneous implementation of 44 individual contracts, was not without issues. Limited customer information initially led to our holding the wrong stock and stock being held at the wrong locations, both of which resulted in additional operational activity to get the right goods to the right place at the right time. As individual dealers had closed warehouses and transferred drivers from day one, it was critical that service levels were maintained and significant additional temporary resource was employed in the early phase of the contract, resulting in one-off implementation

costs of £1.9m being incurred. The situation was stabilised by the end of May and has since been operating to plan.

Truline's sales revenues were within expectations at £26.6m (2011: £1.2m) and accounted for almost a fifth of Managed Procurement's revenue. Initial gross margins were disappointing but recovered in the second half of the year, after the contracted quarterly review of product sales prices and cost recharges, to an overall gross margin for the year of 15.1% (2011: 7.4%). With the Advantia contract settled, Truline was able to focus on an earlier decision to close a non-core transport activity owing to its poor financial performance. This activity had been subsumed by Truline and its closure during the second half of the year resulted in non-recurring costs of £0.7m.

Truline's business model is scalable and sustainable and provides a solid base for our further expansion into the SME market without further capital investment. Interest from the industry is high and we are selecting new dealers who will fit with the Truline model.

Business Critical Services – revenue £79.6m (2011: £65.7m); adjusted EBITA £7.0m (2011: £7.0m). See note 3 to the financial statements

Banner Managed Communication

Established following the acquisition of AccessPlus in 2008 and by the acquisition and integration of TPF in 2010, BMC is now a key player in the growing Business Process Outsourcing (BPO) market. It delivered strong revenue growth with a 19% increase to £75.8m (2011: £63.5m) and now accounts for one third of the Group's total revenue.

Building on this growth, 2013 will benefit from a full year's trading from a further three significant contracts secured during 2012, together worth £18m per annum. Best Buy Europe (Carphone Warehouse), Friends Life and Hastings Direct came on stream towards the end of 2012 and, as usual, implementation costs temporarily suppressed in-year contribution.

BMC predominantly serves private sector customers in the UK and internationally. Recognition of our success in this came in July 2012, when BMC was included on 3 specialist lists of 'International Association of Outsourcing Professionals' (IAOP) annual ranking of the 'World's Best Outsourcing Providers'.

We believe that BMC provides us with a number of exciting opportunities for future growth.

Banner Document Services

Banner Document Services (BDS) is our secure document destruction service operating Closed Loop™, a fully auditable recycling solution for customers. Closed Loop™ was a key factor in securing GOSC and, although initial progress has been slower as Central Government departments unravel existing document destruction services from their incumbent arrangements, it is now growing steadily. Revenue increased by 72% in the year to £3.8m (2011: £2.2m).

We seek to extract additional value from our Closed Loop™ intellectual property and have very recently concluded a Licencing arrangement with our sub-contractor for operations in Northern Ireland.

2013 operating objectives

Economic uncertainties remain and maintaining a highly efficient operating platform is essential for stability and future growth.

While we look to maximise market opportunities, we continue to drive internal efficiencies to ensure we stay in the best possible operational shape.

The marked change in buying patterns towards a 'little and often' approach is clear. For the 20% increase in despatched sales in 2012, 35% more lines were picked and over 50% more deliveries were made. We are working harder to achieve proportionately less return. Despite record productivity levels, we constantly monitor activity and improve operational KPI reporting to highlight issues as they arise.

Current focus is on improvements to our back office functions to identify unnecessary processes and to implement new cost-effective methods. Ultimately, we aim to transform the way our back office supports our revenue generating activities.

S R Moate

Chief Executive

25 March 2013

Business and Financial Review

Revenue and profit

Total revenue was £227.3m (2011 £193.5m). Underlying profit before tax was £6.5m (2011 £8.4m) before non-recurring costs of £4.0m (2011 £2.4m), amortisation of intangibles relating to acquisitions of £1.2m (2011 £1.3m) and share option charges of £0.5m (2011 £0.4m). Operating profit before such costs was £8.6m (2011 £10.0m) and operating profit after such costs was £2.8m (2011 £5.8m). Profit before tax, after such costs, was £0.7m (2011 £4.3m) and profit after tax was £0.3m (2011 £4.3m). The underlying profit margin was 2.9% (2011 4.3%).

Non-recurring costs are those significant items that by virtue of their size or incidence are separately disclosed to enable a better understanding of the Group's operating performance. A significant proportion, £1.9m (2011 £0.7m), relate to exceptional logistics operations to ensure the maintenance of customer service levels in the early stages of the Advantia contract. The remainder are principally one-off items to improve efficiencies across the Group and reshape the business in line with its diversification strategy: restructuring and business integration related charges, £1.5m (2011 £1.7m), and £0.6m (2011 £nil) of business closure and disposal costs of non-core activities. A full analysis of the 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 2012 was 52.5% (2011 negative 0.5%). The high effective rate in 2012 is primarily attributable to expenses not deductible for tax purposes of £141,000 and the impact of adjustments in respect of prior year estimates of £88,000. The lower effective tax rate in the prior year related to the utilisation of previously unrecognised brought forward trading losses of £522,000, the recognition of a

deferred tax asset in respect of trading losses available for offset in future periods of £241,000 where there is now certainty that these losses can be offset against future taxable income, and the impact of adjustments in respect of prior year estimates of £245,000. The Group has a further £452,000 (2011 £491,000) of non-trading losses where no tax asset is recognised as there is currently no expectation that these non-trade losses can be offset against future profit streams.

The amount of corporation tax paid during the year is £0.3m (2011 £0.8m).

The effective tax rate in the near future is anticipated to be similar to the standard rate of UK corporation tax.

Shareholders' return

Basic and diluted earnings per share were 0.9p (2011 12.0p) with underlying earnings per share of 13.4p (2011 20.7p). The total dividend paid and payable for the year of 7.2p per share (2011 11.4p), including the 3.6p interim dividend (2011 3.6p) paid on 9 November 2012, is not covered by earnings (2011 1.1 times) but is covered by underlying earnings 2.5 times (2011 2.0 times). Shareholders' equity at the end of the year was £19.5m (2011 £22.8m).

The middle market quotation of the Company's Ordinary shares at the end of the financial year was 124.0p with a market capitalisation of £45.0m (including shares held by the employee benefit trust).

Cash flow

As set out on page 37, the Group generated net cash from operating activities of £4.2m (2011 £8.8m). At 31 December 2012, net debt amounted to £29.0m, an increase of £1.3m from £27.7m at the start of the year.

The net debt of £29.0m is supported by borrowing facilities of £50.5m committed until June 2015. The facilities comprise a term loan of £17.5m repayable over 5 years with the next instalment of £0.5m due in May

2013 a revolving credit facility of £2.0m overdraft facilities of £4.0m, and an invoice discounting arrangement of up to £27.0m. 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 three and five years and we enjoy a record of consistent contract retention.

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

The GOSC framework, under which we supply a broad range of central Government departments, comprise a number of separable contractual relationships and we do not therefore consider it to be with a single customer.

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 supply 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. Given the 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 (CSR). The CSR statement on page 11 describes the approach o2o takes in this respect

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 exposure

- **Reduction in gross margins**

Gross margins are adversely affected by product cost increases, owing to raw material costs, foreign currency exchange movements and customers' reducing their demand. The Group has sought to mitigate this impact by passing cost increases on to 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 help reduce the risk and a focus on customer profitability allows for the situation to be monitored. Our open book pricing model which offers customers transparency in their procurement and the benefits of o2o's purchasing scale, also reduces o2o's exposure to commodity price fluctuations

- **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 could have a significant impact on the Group. In order to mitigate these risks we maintain appropriate disaster recovery plans and insurance cover

- **Competitors**

The Group operates in a highly competitive market. The risk exists, therefore, that contracts are awarded on the basis of lowest price. Our strategy is to deliver a wide range of first rate, added-value services at competitive prices. Recent contract wins and retentions help demonstrate that this approach is valued by our customers across the Group

- **Economic backdrop**

The Group is affected by economic slowdown with the weakening of sterling, for instance, leading to cost price pressure and the potential that lower levels of activity lead to reduced demand for some of the goods and services

provided by the Group. This was particularly evident with the short fall in public sector sales volumes as a consequence of Government austerity measures. In addition, economic circumstances affect suppliers. However, the Group has limited exposure to the failure of any single supplier since, for the majority of products purchased, alternative sourcing or product options are normally available

The Group's committed borrowing facilities afford some protection against increased funding requirements should they arise. In addition, the wide spread nature of our customers and the public sector element of our account base helps to mitigate risks in the wider economy

- **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

- **Working capital management**

The risk from limited availability of further capital could constrain the growth of the business. The Group mitigates this risk by regular monitoring of cash flow and funding requirements to ensure sufficient undrawn facilities are in place to service its operating activities

Key performance indicators (KPIs)

Overall measurement of the financial performance of the operating segments, Managed Procurement and Business Critical Services, is based on adjusted earnings before interest, taxation and amortisation (EBITA). Details can be found in note 3 to the financial statements.

Individual KPIs which o2o uses to measure business performance are gross profit, distribution costs, administration costs and underlying profit, all expressed as a proportion of revenue, underlying earnings per share and net debt.

	2012	2011
Gross margin %	26.2%	28.8%
Gross margin percentage is gross profit expressed as a percentage of revenue. It is the measure of sales profitability after related direct purchase costs and is a measure comparable with other companies.		
In the Managed Procurement division, the impact of the Truline wholesaler business at lower margins has changed the sales mix.		
Distribution cost %	9.8%	9.5%
The distribution cost percentage is the cost associated with distribution (before £2.9m of non-recurring costs (2011: £nil)) expressed as a percentage of revenue.		
Changes in the sales mix and customer requirements have increased the distribution cost percentage.		
Administration cost %	12.6%	14.1%
The administration cost percentage is the cost associated with administration (before £1.1m of non-recurring costs (2011: £2.4m), amortisation £1.2m (2011: £1.3m), and share option charges £0.5m (2011: £0.4m)) expressed as a percentage of revenue.		
Efficiencies and an increase in revenue are reflected here.		
Underlying profit %	2.9%	4.3%
The underlying profit percentage is the underlying profit (before non-recurring costs, amortisation and share option charges) expressed as a percentage of revenue.		
In addition to the gross margin effect, there was a £0.6m increase in finance costs following the renegotiation of loan facilities in May 2011 and a full year of higher interest rates.		
Underlying earnings per share	13.4p	20.7p
Underlying earnings per share is the profit on ordinary activities after tax (before the after tax effect of 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 decreased as a result of the reduction in underlying profit as explained above.		
Net debt	£29.0m	£27.7m
Net debt is calculated by subtracting cash and cash equivalents from the long and short term borrowings.		
Net debt increased by £1.3m largely as a result of an increase in working capital requirements for the start-up of the Truline activity.		

HCL Cawley

Group Finance Director

25 March 2013

Corporate Social Responsibility Statement

o2o is committed to upholding its 'good for you, good for us, good for everyone' trading ethos. CSR is important to o2o because it is important to o2o's customers, staff and shareholders. It also makes good business sense, leading to greater efficiency, lower costs and improved competitiveness.

Workplace

Almost 1,000 people are employed across the Group and their experience, skills and commitment are critical to o2o's success. As well as providing them with a safe and healthy working environment, o2o promotes a positive internal culture that both challenges its employees and allows them to challenge what they do, openly and constructively.

Employees

o2o recognises the individual needs of its employees. For example, it supports working parents by operating childcare schemes and offering flexible working arrangements subject to the operational needs of the business.

The Company ensures that its employees are kept aware of changes in employee related legislation and runs Group-wide awareness training programmes when appropriate. Recent examples have covered diversity awareness in response to the Equality Act 2010 and an understanding of anti-corruption measures to ensure compliance with the Bribery Act 2010.

The Group intranet has become an important communication link with the Group's employees and it continues to grow in scope as employees become more familiar with it. o2o news is published on the site's home page and a wide range of departmental and corporate policies are available for download.

Health & Safety

o2o is committed to ensuring the health and safety of its employees and a health and safety report is delivered to the Board on a monthly basis. Fire, manual handling, display screen equipment and workplace task-specific risk

assessments are conducted at each site and all delivery drivers undertake an internet-based road safety course.

All sites now operate under an OHSAS 18001 certified health and safety management system, audited by BSI. No major non-conformities were recorded in the 2012 audits.

Annual workplace inspections are undertaken by an independent assessor with follow up visits to ensure that all corrective actions have been completed. Owing to a change of external assessor during the year, performance ratings and industry comparisons are no longer conducted. Internal observation and legal compliance audits are undertaken by the o2o quality, environment, health & safety (QEHS) teams at all sites and this has led to the development and group-wide availability of user friendly web pages on specific QEHS aspects.

Our 5 main sites are enrolled with the British Safety Council (BSC), improving access to information and training modules. Both of our Guildford and Manchester sites have won International Health and Safety Award (with Merit) from BSC based on their work practices and health and safety culture.

All our employees receive health and safety awareness training and o2o health and safety procedures are available on the Group intranet. A health and safety group, comprising employees from different levels and functions, is in place at every o2o location, with responsibility for conducting reviews of current practices and taking any corrective action necessary. Our senior operations managers are trained to BSC Level 2 and all members of the Head Office health and safety group have attained BSC Level 1 certificate.

Community

o2o recognises that it has a responsibility towards the wider community and is particularly proud of the efforts of its employees to raise funds for charity.

Work experience placements are offered to students and, wherever practicable, preference is given to local businesses when outsourcing services such as catering, cleaning and recruitment.

o2o has an established charity committee to help o2o employees contribute to community and charitable events by encouraging and co-ordinating fundraising across the Group. It has delivered an array of activities, including office 'dress down' days, cake sales, raffles and various sponsored events to benefit local causes and numerous charities.

Product marketplace

o2o takes seriously CSR initiatives for its products. The Group ensures good practice throughout its supply chain and helps its customers to do likewise.

Ethical sourcing

o2o sources products on a global basis and encourages all of its suppliers to operate environmental management systems. o2o will not knowingly trade with organisations that behave in a manner that is unethical or irresponsible.

In particular, o2o takes proactive steps to audit the ethical performance of suppliers who manufacture the Group's own brand products. First, o2o is a member of Sedex, the supplier ethical data exchange. In addition, o2o's buyers visit suppliers' factories overseas and use SGS, an independent assessor, to ensure compliance with the Ethical Trading Initiative's base code which is founded on the conventions of the International Labour Organisation and is an internationally recognised code of labour practice.

Green OPTIMISA™

The Green OPTIMISA™ system enables customers to calculate the environmental impacts of their contract with o2o, including the use of paper, CO₂ emissions and transport (fuel consumption). This is important to many o2o customers and the system

Corporate Social Responsibility Statement (continued)

therefore adds value commercially, as well as from a CSR perspective

Environmentally preferred products

o2o operates the Globe & Tick™ accreditation scheme, which makes it easy for customers to select environmentally preferred products. The range of 'green alternatives' now consists of over 1,500 products for every area of the workplace, from office supplies to catering, technology to promotional items. Globe & Tick™ products constitute over 18% of the lines contained within the o2o catalogue for 2013.

All Globe & Tick™ products are audited against independently set criteria before they are showcased in the o2o Green Guide, which is published annually. The Green Guide also incorporates information on other sustainable products and services and how customers can minimise the impact of their day to day working practices on the environment.

o2o are certified members of both the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) promoting responsible and sustainable forest management.

Fairtrade is designed to give disadvantaged farmers a guaranteed price for products that meet internationally agreed standards. Rainforest Alliance focuses on standards covering worker protection, their environment and their communities. A range of Fairtrade and 'Rainforest Alliance certified' catering supplies are included in o2o's catalogue.

Catalogues and brochures

All of o2o's main catalogues are printed on paper made from 100% recovered waste. Surplus catalogues are always recycled and the use of electronic catalogues is promoted wherever possible.

Recycling services

o2o offers a portfolio of recycling

services, notably waste paper through its Closed Loop™ service.

Having supplied its customers with copier paper, the Closed Loop™ service collects the waste paper, securely shreds it, and a leading paper mill then converts it back into copier paper to be used again by the customer, thereby 'closing the loop'.

Over 2.8 million reams have been produced equating to a saving of 120,000 trees, a reduction in CO₂ emissions of 4,722 tonnes, a reduction in energy consumption of 56.8 million kilowatts, and a reduction in water consumption of 316 million litres.

Closed Loop™ has won several accolades since its inception including a Green Apple Award in 2010, a Bronze Zero Waste Award in 2012 and more recently a Tomorrow's FM award. It was also key to the business securing the title of 'Recycling and Waste Management Large Business of the Year' in 2012. More information can be found on the website www.bannerclosedloop.co.uk.

In addition, o2o offers the safe disposal of batteries, printer cartridges, uniforms, office furniture and technology products.

Environment

o2o operates an environmental management system that has been certified to the international standard ISO 14001:2004 and has made significant progress in reducing the environmental impact of its business activities.

Waste management

o2o is a national distributor of business products and aims to keep packaging to a minimum through a combination of improved box utilisation, larger product pack sizes and customer education regarding the environmental benefits of consolidating orders. Towards the end of 2012, o2o introduced its trademarked recyclabox™, a sturdy but

easily collapsible box made from 100% recycled card. Recyclabox™ is used for all deliveries and customers are encouraged to return the folded boxes to the drivers to be re-used again and again.

Where possible, o2o utilises e-commerce to reduce the amount of paper used in the transaction process. The Group trades with most of its larger customers and suppliers electronically.

Recycling

All of o2o's distribution hubs have procedures to recycle waste materials. A new 'backloading' process ensures that waste cardboard and shrinkwrap is taken back to o2o's warehouses for recycling, using the same trucker vehicle that delivers goods for onward shipment to customers. Drinks cans and plastic bottles are also recycled.

In November 2012, the Manchester distribution centre achieved 'zero landfill' status assisted by White Recycling Limited. All general waste from this site is now 100% recycled. White Recycling Limited collect the waste and further segregate items for recycling with any residual waste going through its waste exchange operation transforming waste into quality secondary fuels of varied specifications for a variety of end users. A similar solution is being investigated for o2o's other distribution hubs.

Overall, the volume of cardboard and paper recycled in 2012 was in excess of 420 tonnes (2011: 380 tonnes) and the volume of plastic that was recycled increased to over 60 tonnes (2011: 50 tonnes).

Energy management

The investments made by o2o in 2011 to increase the efficiency of the heating and lighting system and improve energy usage resulted in significant reductions in CO₂ emissions in that year which have been maintained in 2012. The Manchester distribution centre benefited from an air source heat pump which converts air drawn from the

atmosphere into a source of heat for use in radiators and, in the Basingstoke warehouse, a new heating system with down fans was installed. Low energy lighting was also fitted throughout these sites. During the year, movement sensors were fitted to light fittings within the office and warehouse of our new Barking hub to help reduce energy usage.

In 2012, a total of 1,050 tonnes of CO₂ were emitted by o2o's largest sites (Manchester, Basingstoke, Swindon and Norwich) in relation to gas and electricity usage, representing a slight increase on prior year consumption across the same sites owing to additional heating in what was an unusually cold and wet spring but upholding the improvements made since 2010 (2011 1,038 tonnes, 2010 1,245 tonnes).

A project to align energy suppliers' contracts was undertaken in 2012. Suppliers now provide smart-enabled technology to give real-time consumption information and a phased transfer to renewable electricity source is underway. Ten of our depots were transferred during the year and the remaining ten will be switching over in 2013. In addition, all contracts were made coterminous, to facilitate administration, renewals and tendering.

Carbon management

As a national distributor, o2o operates its own in-house fleet of delivery vehicles. In addition, since 2010, the fleet has performed a large number of palletised deliveries for The Pallet Network (TPN). CO₂ emissions generated by the fleet were 5,801 tonnes in 2012 (2011 4,657 tonnes) reflecting a full year of deliveries for the GOSC and Advantia contracts. However, o2o employs a number of initiatives to maximise efficiency and minimise the environmental impact of the fleet.

A four year renewal scheme means that the most up-to-date, clean running and fuel efficient vehicles are available. The HGV vehicles are Euro 5 compliant, having sloping roof trailers and aerodynamic bodies to minimise fuel usage and utilising selective catalytic reduction to minimise pollution. Almost all of the vehicles are diesel and some are fitted with stop start technology which switches the engine off when the vehicle has a prolonged stop. Journeys are optimised by means of a sophisticated fleet management system and Navman tracking. Double deck trailers are used to transport larger quantities of goods in a single journey. Back-loading arrangements exist whereby delivery vehicles collect stock on their return to the warehouse in an otherwise empty vehicle.

The company car scheme encourages staff to select cars from a defined range of low emission vehicles and video and telephone conferencing are used to minimise the need for business travel.

Board of Directors

David Callear Chairman

David aged 59 is a Chartered Accountant and joined o2o as Chairman in January 2001. His career has been in financial and general management with both 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) and private equity ventures. During the year he held a number of non-executive chairman roles working with the boards of private companies including R P Martin Holdings Limited.

Simon Moate Chief Executive

Simon aged 50 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.

Steve McKeever Chief Operating Officer

Steve aged 48 was appointed to the Board in August 2010. He joined o2o in December 2007 with responsibility for the Group's IT function and later assumed additional responsibility for o2o's integrated supply chain. Until recently he acted as temporary Managing Director of BMC. Before joining o2o he was a director of Johnson Group Management Services Ltd, holding both IT and operations director roles.

Jim Cohen Senior non-executive Director

Jim aged 71 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 in 1993 he held senior management positions with GTE and GEC and was a senior civil servant at the Department of Energy. He is currently a member of the investment committee of the Netherlands based infrastructure funds DIF II and DIF III, an adviser to Logikal Projects Limited and a non-executive director of African Power Corporation Limited.

Chris Batterham Non-executive Director

Chris, aged 57, 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, Iomart Group plc, Toumaz and chairman of Eckoh plc.

Hugh Cawley Group Finance Director

Hugh aged 56 was appointed to the Board on 25 February 2013 and is a Chartered Accountant. He was previously Chief Executive Officer of Dawson Holdings PLC, overseeing the reversal of its decline, the growth of its constituent businesses and, in August 2011, the subsequent sale of the group for a significant premium. Prior to this he held senior financial roles at Procter & Gamble, Imperial Chemical Industries PLC and S Daniels plc.

Mark Cunningham

Mark served as Finance Director throughout 2012 and resigned on 30 January 2013.

Directors' Report

The Directors present their report and the audited consolidated financial statements for the Group for the year ended 31 December 2012

Principal activities

The principal activity of the parent Company (the Company) is that of a holding company office 2 office plc is registered at Companies House under company number 04083206

The Group's principal activities are delivering managed procurement and business critical services

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 5 and in the Chief Executive's Review on pages 6 to 7. The KPI's are defined and the principal risks and uncertainties (including financial risks) facing the business are described in the Business and Financial Review on pages 8 to 9. The Board has delegated the responsibility for monitoring financial risk management to the Audit Committee.

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.

Aberforth Partners	8,364,597 shares	23.04%
AXA Framlington	5,309,455 shares	14.62%
Miton Capital Partners	4,358,735 shares	12.00%
F & C Asset Management	2,405,698 shares	6.63%
Baillie Gifford & Co	1,722,359 shares	4.74%
Mark Cunningham*	1,089,549 shares	3.00%

*Executive Director resigned 30 January 2013

Results and dividends

Profit for the year was £0.3m (2011: £4.3m)

An interim dividend of 3.6p (2011: 3.6p) per Ordinary share, amounting to £1.3m (2011: £1.3m), was paid on 9 November 2012.

The Directors recommend a final dividend in respect of the year ended 31 December 2012 of 3.6p (2011: 7.8p) per Ordinary share, amounting to £1.3m (2011: £2.8m). If authorised at the AGM, the dividend will be paid on 11 July 2013 to shareholders on the share register at close of business on 17 May 2013.

The aggregate dividends recognised as distributions in the year ended 31 December 2012 amounted to £4.1m (2011: £4.1m).

Share capital and substantial shareholders

The Company's issued share capital is £363,089,84 divided into 36,308,984 Ordinary shares of 1 pence each. All shares have uniform rights except for those shares held in the employee benefit trust (EBT), as referred to on page 18, where the trustee typically waives his right to vote.

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. 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.

There are no contracts of significance in place between the Group and its shareholders (2011: none).

The Company has been notified in accordance with Disclosure and Transparency Rule 5.1.2 of the Financial Services Authority that, as at 1 March 2013, the above shareholders owned 3% or more of the issued Ordinary share capital of the Company.

At the last AGM, the Directors were given authority to allot Ordinary shares (within the meaning of s 551 Companies Act 2006) up to a nominal amount of £121,030 and, separately, a further nominal amount of £121,030 provided they are offered by way of a rights issue to existing shareholders in proportion to their existing holdings, in line with the Association of British Insurers guidelines. In total these authorities represent two thirds of the issued Ordinary share capital. Additionally, the Directors were given the power to disapply pre-emption rights in respect of the allotment of shares (under s 570 Companies Act 2006) up to an aggregate nominal value of £18,154 (representing 5% of the issued Ordinary share capital) and, 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 are due to expire at the end of the forthcoming AGM. Separate resolutions to renew these authorities will be set out in the notice of meeting and proposed at the AGM on 22 May 2013.

Directors' Report (continued)

Other business to be considered at the forthcoming AGM

Other business to be considered 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 total nominal amount of £242,060 (being two-thirds of the issued Ordinary 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 AGM's 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, with the exception of Hugh Cawley, were Directors during 2012 and held office throughout the year under review up to the date of signing the annual report and financial statements

David Callear
Chairman¹

Simon Moate
Chief Executive

Hugh Cawley
Group Finance Director
(appointed 25 February 2013)

Mark Cunningham
Finance Director
(resigned 30 January 2013)

Steve McKeever
Chief Operating Officer

Jim Cohen
Non-executive Director²

Chris Batterham
Non-executive Director³

¹ Chairman of the Board and of the Nomination Committee Member of the Remuneration Committee and Audit Committee

² Chairman of the Remuneration Committee, the Risk and Opportunity 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 14

Simon Moate will retire at the forthcoming AGM in accordance with the Articles and, being eligible, will offer himself for re-election The Board firmly believes that he serves the Company well and has the attributes to take the business forward Accordingly, the Board recommends his re-election

Following Mark Cunningham's resignation on 30 January 2013, Hugh Cawley was appointed Group Finance Director with effect from 25 February Hugh Cawley will offer himself for election at the forthcoming AGM

Corporate Governance

Details of the Corporate Governance arrangements are provided on pages 19 to 22

Directors' interests

Directors' beneficial interests are disclosed on page 28 of the Directors' Remuneration Report None of the Directors' interests carries special rights with regards to control of the Company

Related party transactions

In 2012, payments totalling £367,322 (2011 £248,948) were made to Iomart plc of which Chris Batterham is a non-executive Director Iomart plc provide managed hosting services Over the past two years o2o has transferred its server requirements to Iomart The transactions are on normal commercial terms

Directors' third party indemnity provisions

A qualifying third-party indemnity provision as defined in s 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 his office to the extent permitted by law during the financial year and also at the date of approval of the financial statements 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 prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). 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 EU 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 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 14 confirms that, to the best of his 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 s 418 Companies Act 2006, 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

- an intranet facility which hosts amongst other things internal vacancies, o2o news items, Group policies, HR forms and procedures,
- corporate and divisional newsletters and announcements,
- local employee forums which bring together a cross section of employees to cover, separately, matters such as health and safety, site improvements and fund-raising activities,

- operation of an employee suggestion scheme which facilitates a two-way flow of information and ideas,
- supplier meetings which provide an opportunity for relevant employees to meet the Group's key suppliers and get a better understanding of the products they are selling and for the suppliers to showcase the new products included in the Group's catalogues, and
- Group sales meetings which bring together the different sectors of the business to share knowledge on products and services to promote cross-selling capabilities

A long term incentive scheme is in operation for executive Directors and senior managers. Details are included in the Directors' Remuneration Report on pages 25 to 29

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. There are currently three live schemes: a three and five year scheme which was launched in November 2011 and a five year 2008 scheme which is exercisable from May 2013. Details of these schemes are given in note 26 to the financial statements. Details of the executive Directors' participation are included in the Directors' Remuneration Report on pages 25 to 29

A low cost dealing service is available to employees which provides a simple way of buying or selling o2o shares. In addition, an on-line share portal, available through the Company's registrar, allows individuals to view and manage their shareholdings. Details of these services are available on the Company's website

Directors' Report (continued)

Employee benefit trust (EBT)

As at 31 December 2012, the total number of Ordinary shares held by the EBT was 138,155 (0.38% of the issued Ordinary share capital of the Company (2011: 269,356 (0.74%))). The reduction in shares held was owing 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 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 employee's 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.

Diversity and anti-discrimination

o2o's diversity and anti-discrimination policy is available to all employees via the Group intranet. In response to the new Equality Act 2010, a training program was rolled out across the Group to promote awareness of diversity in the workplace and to communicate the potential consequences of discrimination and how to avoid it.

Bribery and anti-corruption

o2o does not tolerate any form of bribery or corruption and this is codified in the Group policy on anti-corruption available on the Group intranet. Employees are required to declare details of any gift or hospitality received in connection with their employment and in conjunction with the Business Ethics Policy set out in the staff handbook. Where there is any doubt of a conflict of interest, employees are asked to seek approval in advance.

Health and safety

o2o is committed to maintaining the health, safety and welfare of its employees. Details of the Group health and safety activities are given on page 11 of the CSR Statement.

Creditor payment policy

It is Group 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 86 (2011: 86 days) for the Group. The Company has no trade payables (2011: 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 Group environmental policies are provided in the CSR Statement on pages 11 to 13.

Corporate and social responsibility

A summary report on the Group policies and objectives in respect of CSR is set out on pages 11 to 13.

Requirements of the Takeover Directive

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

- details of the Group employees' share save scheme are given on page 17
- 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 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 onerous change of control clauses, and
- there are no provisions for compensation for loss of office or employment in the agreements with Directors and employees.

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.

By order of the Board

D Rodwell

Company Secretary

25 March 2013

Corporate Governance Statement

Statement of compliance with the UK Corporate Governance Code 2010 (the Code)

The UK Corporate Governance Code sets out standards of good corporate governance and is publicly available on the Financial Reporting Council's website www.frc.org.uk. It has recently been updated for companies with reporting periods beginning after 1 October 2012. 2020 will report against, and all subsequent references in this statement are to, the 2010 version.

The Directors consider that the Company has fully complied with the principles set out in each section of the 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, Chief Operating Officer, Group 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 14. A statement of Directors' responsibilities is given on page 17 of the Directors' Report. The

respective responsibilities of directors and auditors are given on page 30 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, underpinning their ability to challenge decisions, 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 Company Secretary reports to the Board and advises individual Directors as required on Board procedures, corporate governance matters and changes in the regulatory environment. A procedure also exists for Directors to take independent professional advice at the Company's expense.

The Nomination Committee has a formal procedure for appointments to the Board and this welcomes candidates from both sexes. Appointments are made on merit against objective criteria, following recommendation by the Nomination Committee. Newly appointed Directors are supplied with comprehensive documentation aimed at providing information in relation to the remit and obligations of the role and current areas under consideration for the Board.

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 with site reviews conducted to provide the non-executive Directors with an opportunity to assess the operations at first hand. The monthly agenda covers both operational and strategic matters, however, separate strategy days are also held to focus on longer term

considerations without the distraction of the day-to-day operational matters. At each meeting, all Directors are invited to declare the nature and extent of their interests in the matters for discussion.

Frequent informal dialogue between the Directors supplements the formal Board meetings. On a number of occasions during the year, the Chairman met 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.

Formal presentations by, and informal meetings with, senior management allow the Board to keep abreast of operational matters, helps their understanding of the business and improves communications both in and out of the boardroom.

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, 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. Regular detailed reports on the Company's funding and liquidity position are also circulated. Upon release, analyst and broker reports are circulated 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 Board continues to balance the longer term strategic direction with immediate operational requirements and delivery of acceptable financial results.

In summary, the Board

- 2008 - facing unfolding economic

Corporate Governance Statement (continued)

uncertainties, balanced the integration of AccessPlus and Accord and the operational restructuring following the withdrawal from the Ministry of Defence contract in 2007

- 2009 - further streamlined the cost-base to meet the challenges of a recession while creating a strong position for the start of any economic recovery and maintained an attractive dividend yield balanced by a focus on funding and affordability,
- 2010 - against a background of political and economic uncertainty leading up to and immediately following a change in Government, scaled the Business Critical Services segment by the acquisition of TPF and undertook further restructuring, and
- 2011 - encouraged the strategy to grow in the SME sector to help mitigate the impact of declining public sector sales volumes and further addressed the Group's cost base while mindful to maintain the means to realise the long term potential of the new Advantia and GOSC contracts

In 2012, the Board, with its advisors, undertook a detailed review of the business. This review concluded that whilst the UK office products market is performing badly with many participants weakened, o2o's business is relatively robust in a pressured environment. Over time some industry consolidation seems likely and whilst the Directors will continue to monitor opportunities, the currently depressed market will influence when and how any such opportunities arise.

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 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. At the next AGM, Simon Moate will offer himself for re-election and Hugh Cawley will seek election being the first opportunity for him to do so.

Board performance

The Board undertakes a critical evaluation of itself and its committees on an annual basis. The 2012 performance evaluation questionnaire comprised a series of statements, which required a rating between "strongly disagree" to "strongly agree" and individual comment was invited on each. In addition a section is included to allow the Directors to assess their personal involvement in various Board matters on a scale from "too much involvement" to "not enough involvement". Given the need regularly to review and agree with each Director his training needs, the purpose is to determine whether there are any time, experience or development issues with individual roles and to address these.

The review re-confirmed that the size of the Board, its composition and balance, together with its open and inclusive culture, remain appropriate for the current business and that the Committees remain effective. In addition, it was recognised that the Nomination Committee kept the leadership needs of the Group under review notwithstanding the limitations on succession planning within a small company.

A number of recommendations were made in respect of improving awareness with regards to specific areas of the business, particularly as the Group diversifies, and it was agreed to arrange appropriate training.

Going concern

The Group has net current liabilities as at 31 December 2012 and 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 June 2015. The Group's forecasts indicate that it is able to operate within the level of its current facilities and related covenants 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.

Board sub-committees are appointed to act on behalf of the Board for specific projects or one-off matters as and when required. This enables matters to be dealt with quickly and efficiently without formal scheduled meetings and proceedings are fully minuted for approval by the Board. Composition of the sub-committees varies according to the nature of the business covered. Meetings during the year related to the detailed review of the business and were mainly chaired by David Callear.

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 23.

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 25.

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 David Callear. All members have

financial literacy. Chris Batterham, who chairs the Committee, and David Callear are Chartered Accountants and have relevant financial expertise, as described in their biographies on page 14. Non-committee members and the external auditors are invited to attend by prior arrangement. A report on its activities is given on page 23.

The Risk and Opportunity Committee was formed in 2010 and is chaired by Jim Cohen. The aim is to provide a forum for risk and opportunities to be regularly reviewed by Board members and senior management. There is no set membership, as this will vary according to the matters under review. Further details are provided on page 23.

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 25 to 29 includes details of remuneration policies and the remuneration of Directors.

Relationship with shareholders and constructive use of the AGM

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 has, up to now, received an interim report on the half year results. For 2013 and thereafter, half yearly results will be published on the Company's website but will be available in hard copy form only on request. 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 November 2012.

Attendance at meetings

The number of full Board meetings and committee meetings attended by each Director in 2012 was as follows:

	Full Board	Board sub-committee	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings held	11	15	10	4	2
Chairman					
David Callear	11	14	9	4	2
Executive Directors					
Simon Moate	11	12	6*	2*	2*
Mark Cunningham (resigned 30 January 2013)	11	11	0	4*	0
Steve McKeever	11	2	0	2*	0
Non-executive Directors					
Jim Cohen	11	3	10	4	2
Chris Batterham	11	3	8	4	2

* By invitation

Corporate Governance Statement (continued)

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 2013 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. The Directors have conducted a review of the effectiveness of the Group's system of internal control and consider it appropriate for the business. No significant failings or weaknesses were identified. A detailed, group-wide review of risk and opportunity is overseen by the Risk and Opportunity Committee. See page 21 for further details.

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,
- financial teams dedicated to each business segment but with a reporting line to the central finance function. This ensures that the specific accounting needs of each segment can be closely managed whilst ensuring financial discipline is maintained,
- central control of key functions such as tax, treasury, payroll and insurance, rather than on a divisional basis,
- a comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business and consolidated by the central finance team. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board,
- an agreed time-plan and schedule of responsibility for the preparation of consolidated accounts and a continual review process with the Board. Reports and statements are prepared independently from the financial statements to ensure integrity of content,
- 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.

o2o maintains its 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 summary report on the Group's policies and objectives for CSR is set out on pages 11 to 13.

D Rodwell

Company Secretary

25 March 2013

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 where due regard is given to diversity, including gender. This is available together with the Committee's terms of reference on the Company's website (www.office2office.co.uk).

The Committee meets as required and engages with recruitment consultants when appropriate. During 2012, the Committee met on two occasions and, since year end, met on a further two occasions in respect of the search for a replacement Finance Director.

Composition of the Nomination Committee

The Nomination Committee comprises the Chairman and the independent non-executive Directors. The Company Secretary is secretary to the Committee.

D J Callear

Chairman of the Nomination Committee
25 March 2013

Audit Committee Report

Role of the Audit Committee

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

- reviewing and recommending to the Board for approval, the half-year report, the annual report and financial statements, results announcements of the Group and any other formal announcements relating to the Group's financial performance,
- 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 Chris Batterham (Committee Chairman), Jim Cohen and David Callear. Their biographical details are included on page 14 and their remuneration on pages 25 to 29. Chris Batterham and David Callear are Chartered Accountants. Non-committee members and the Company's external auditors (PwC) 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 2012 with other Board members and the auditors attending as required. These meetings covered PwC's presentation of their audit approach and procedures, including matters relating to scope, auditor independence and fees, consideration of changes in accounting policies and standards, discussions concerning the external audit reports and any matters arising, and reviews of the financial results and investor presentations, at the full-year and half-year, prior to recommending them to the Board for approval. The Group whistle-blowing policy and the Banner Business Supplies Pension Scheme accounts were also reviewed by the Committee.

Risk and opportunity management - internal audit function

A Risk and Opportunity function was established in 2010 to deliver value to the business by ensuring risk is managed at every level throughout the Group, reducing inefficiencies through process improvements and optimising the opportunities that this brings. Individual managers have taken responsibility for their respective areas and a formal reporting procedure has been established by the Risk and Opportunity Manager. Overseeing this function is the Risk and Opportunity Committee, comprising Audit Committee representatives, the Risk and Opportunity Manager and those Directors and managers responsible for key priorities. It provides a forum for discussion, enables progress to be monitored and actions prioritised.

The Committee does not consider it necessary to have a separate internal audit function and considers the Risk and Opportunity approach will help

Audit Committee Report (continued)

mitigate the principal risks and uncertainties facing the Group which are set out on pages 8 to 9 of the Business and Financial Review

Review of whistle-blowing policy

o2o has a whistle-blowing policy in place which establishes a confidential channel of communication for employees to bring matters of concern about the running of the business to the attention of senior management. Upon being notified of such a concern, the policy sets out a defined process for full investigation and, where necessary, corrective action to be taken. The Audit Committee reviews the whistle-blowing policy on an annual basis.

No concerns were reported in the year and following a review of the policy, no changes were considered 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. A new audit partner was assigned to the Group following the 2009 year end process in line with PwC's own partner rotation policy as required by the Auditing Practices Board. The Audit Committee is satisfied with their effectiveness and independence and has not considered it necessary to require an independent tender process. The Committee formally validates this and, therefore, its recommendation to the Board with regards to appointment and reappointment, by

- assessing PwC's 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 the external auditors to review and approve audit scope and fees and obtain written confirmation of their independence. Following the audit, the Committee meets 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.

As detailed in note 7 to the financial statements, total fees paid to PwC in 2012 were £202,000, of which £125,000 related to audit fees, £10,000 related to the 2012 interim review and £25,000 related to corporate tax services. In addition, PwC were engaged to perform taxation advisory services and audit related assurance services for fees of £17,000 and £25,000 respectively. The Committee approved all fees prior to the work being undertaken. With regards to tax services, these were provided by an independent team and the Committee was satisfied that the level of fees did not prejudice PwC's independence.

C M Batterham

Chairman of the Audit Committee

25 March 2013

Directors' Remuneration Report

This report outlines the membership and workings of the Remuneration Committee, together with details of Directors' remuneration in respect of the year ended 31 December 2012. 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. Membership comprises Jim Cohen (Committee Chairman), 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. When necessary, non-committee members are invited to attend by prior arrangement. The Committee met on ten occasions 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. In addition, the Committee assists in the recruitment and remuneration of new Board members and also monitors the remuneration of senior management generally.

In determining remuneration packages and policies, due regard is given to any legal requirements, the provisions of the UK Corporate Governance Code and the Listing Rules of the Financial Services Authority. The Committee seeks independent advice from Aon Hewitt Limited (operating through the brand New Bridge Street) and Macfarlanes LLP. Neither Aon Hewitt Limited, nor any other part of the Aon Corporation Group, provided other services to the Company during the year under review. Macfarlanes LLP are consulted on various other corporate and legal matters. The last independent comparative remuneration review for the executive and senior management team was conducted by Hyperion HR Limited in 2010.

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, intended pay increases across the Group and, when deemed appropriate, information from independent remuneration consultants' sources on levels of salary for similar jobs.

The maximum 2012 bonus potential for Simon Moate and Steve McKeever is 100% and 60% of basic salary respectively.

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

As with previous years, the 2012 annual cash bonus scheme was designed to reward growth in underlying EPS and rigorous management of net debt and working capital. A varying proportion of

the bonus was based on personal targets tailored to each Director and objectively measurable.

No bonus is payable with regards to the EPS and net debt as the respective targets were not achieved. Whilst some bonus is payable in relation to working capital and other operational targets, the executive Directors have elected not to take any bonus for 2012. If not for this election, bonuses of 5% and 12% of basic salaries would have been payable to Simon Moate and Steve McKeever respectively.

It is intended that the 2013 cash bonus will continue to take account of the key KPI's on o2o's performance. Personal targets will again be included and the Committee will reserve the right to apply discretion.

Pension contributions to the executive Directors' personal pension schemes were made at a rate of 10% of basic salary.

The service agreements for the executive Directors are on a rolling basis and terminable on 12 months' 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.

Mark Cunningham resigned from the Board on 30 January 2013 and took leave from his employment from 28 February 2013. In line with his contractual terms he will continue to be paid monthly during his 12 month notice period.

Save as you earn share option scheme (SAYE)

The Group operates an HMRC approved SAYE scheme open to all employees in which Simon Moate and Steve McKeever participate. Details are provided on page 29.

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

Directors' Remuneration Report (continued)

Bonus Plan (DSBP) which has been inactive since inception. Both these plans were approved by shareholders in November 2005. 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 is 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.

From inception in 2005 to awards made in 2010, the performance criteria were based on (i) a comparative measure of total shareholder return (TSR) against companies in the FTSE Small Cap Index and (ii) the Company's underlying earnings per share (UEPS) growth.

The last awards having joint TSR and UEPS performance criteria were made in 2010 and will mature during 2013 without vesting.

In 2011, in recognition that the PSP had lost credibility with senior management as only a small proportion (11.8%) had vested since the scheme was implemented, the Committee consulted with independent remuneration advisors, the ABI and major shareholders. As a result, it was decided to keep within the remit of the existing scheme in relation to matters such as individual award levels and dilution limits whilst modifying the performance criteria to provide participants with targets they could identify with but which remained challenging.

For awards made since 2011, the PSP is now a two part scheme, each part allowing awards up to 100% of salary.

Part A is open to the executive Directors and a number of senior management with performance measurements split equally between growth in both UEPS and share price. The latter was chosen to replace TSR as it is understood by all and unites the team around a goal in common with shareholders. Part A is also subject to a judgemental underpin of performance (see below). Part B awards, which are only open to executive Directors and only in special circumstances, rely solely on the judgemental underpin of performance (see below) exercised by the Committee. In 2011, Part B awards were granted to Simon Moate and Steve McKeever.

For Part A awards, the UEPS component is split into three equal tranches to be measured annually. Each tranche will provisionally vest 50% if EPS grows by an average of 4% more than RPI in the year, with full provisional vesting if UEPS grows by an average of 8% more than RPI in the year. Proportionate provisional vesting will occur on a straight-line basis between the lower and upper level. To the extent that targets are not met, the relevant portion of the first and second tranches, is measured with the following year's tranche.

The share price component is measured on 5 occasions during the period of the award. If the share price hits a sliding scale of challenging targets for a period of 30 days after the announcement of full year and half year results, then provisional vesting will occur. Any unvested provisional award is carried over to the next measurement period but vesting will only occur if a higher share price target is met than with earlier testing.

The provisional vesting of the awards provides participants with a barometer of how their award is faring within its three year wrapper. Actual vesting will occur only at the end of the three years following grant of the award and subject to continued employment and satisfaction of the same underpin judgement by the Committee as the Part B awards.

The underpin is a check by the Remuneration Committee to ensure there are no irrational outcomes and, amongst other things, whether the Company has been able to declare appropriate dividends throughout the period.

For the 2011 PSP awards, 20% of the share price component provisionally vested as the average closing share price hit 160p in the 30 day period following the announcement of the 2011 final results.

Current holdings

In September 2012, Simon Moate exercised his options under the TSR element of the 2009 PSP award. 100% of the TSR element vested, being 50% of the whole award and equating to 80,303 shares. No awards vested under the UEPS element. Further to 41,968 shares being sold at 132.89p to settle the related tax obligations the remaining 38,335 shares were transferred to Simon Moate.

The executive Directors currently hold awards over 0.20 shares following grants made in May 2010, June 2011 and September 2012 based on an average share price of 155.5p, 133.5p and 137.5p respectively. For Simon Moate and Steve McKeever, the June 2011 grant comprises two awards under Part A and Part B of the scheme, as mentioned above, equating to 200% of salary in total.

The above awards are detailed on page 29 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

The Chairman's and non-executive Directors' service agreements are currently for three year terms. David Callear's and Jim Cohen's third three year term ends on 28 June 2013 and both have provisionally agreed to continue on renewable one year terms. The other Directors are satisfied that they remain sufficiently independent and add value to Board matters. Under the UK Corporate Governance Code, David Callear and Jim Cohen will be subject to annual re-election at each AGM following their re-appointment. Chris Batterham's three year service agreement ends on 25 June 2014. 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. Whilst there were no changes to their remuneration in 2011, increases were awarded during the year to the Chairman and non-executive Directors. David Callear's increase reflected the additional time commitment to manage the detailed review of the business and to chair related sub-committee meetings from the beginning of 2012. Jim Cohen and Chris Batterham received inflationary increases on 1 April 2012.

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

Performance graph

The graph below shows o2o's total shareholder return performance (TSR) 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 1 January 2008 to 31 December 2012.

Directors' Remuneration Report (continued)

Directors' remuneration earned in 2012 - audited

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

	2012 Salary/ fees £000	2012 Allowances and benefits in kind £000	2012 Annual bonus £000	2012 Total £000	2011 Total £000
Chairman					
David Callear	198	10	-	208	138
Executive					
Simon Moate	314	15	-	329	359
Steve McKeever	186	15	-	201	239
Mark Cunningham*	188	14	-	202	220
Subtotal	688	44	-	732	818
Non-executive					
Jim Cohen	56	-	-	56	55
Chris Batterham	51	-	-	51	50
Subtotal	107	-	-	107	105
Total	993	54	-	1,047	1,061

* Mark Cunningham resigned from the Board on 30 January 2013

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

	2012 Pension contributions £000	2011 Pension contributions £000
Simon Moate	31	30
Steve McKeever	19	18
Mark Cunningham (resigned from the Board on 30 January 2013)	19	20
	69	68

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

	2012 Number of Ordinary shares	2011 Number of Ordinary shares
David Callear	450,991	450,991
Simon Moate	196,832	158,497
Steve McKeever	6,747	6,747
Mark Cunningham (resigned from the Board on 30 January 2013)	1,089,549	1,089,549
Jim Cohen	65,496	65,496
Chris Batterham	7,516	7,516
	1,817,131	1,778,796

Between 31 December 2012 and the date of this report, Simon Moate and Steve McKeever increased their beneficial interest by 10,000 shares and 5,364 shares respectively to a holding of 206,832 shares and 12,111 shares respectively

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 12	Granted	Exercised	Expired	31 Dec 12	Exercise price per share	Exercisable from	Expiry date
Simon Moate								
2009 PSP Award	160 606	-	(80,303)	(80 303)	-	0 1p	04 03 12	04 09 12
2010 PSP Award	189 711	-	-	-	189,711	0 1p	21 05 13	21 11 13
2011 PSP Award	441 948	-	-	-	441,948	0 1p	20 06 14	20 12 14
2012 PSP Award	-	232 727	-	-	232,727	0 1p	18 09 15	18 03 16
	792 265	232 727	(80,303)	(80 303)	864,386			
Steve McKeever								
2010 PSP Award	112 540	-	-	-	112,540	0 1p	21 05 13	21 11 13
2011 PSP Award	262 172	-	-	-	262,172	0 1p	20 06 14	20 12 14
2012 PSP Award	-	138 182	-	-	138,182	0 1p	18 09 15	18 03 16
	374 712	138 182	-	-	512,894			
Mark Cunningham*								
2010 PSP Award	118 971	-	-	-	118,971	0 1p	21 05 13	21 11 13
2011 PSP Award	147,566	-	-	-	147,566	0 1p	20 06 14	20 12 14
2012 PSP Award	-	137 891	-	-	137,891	0 1p	18 09 15	18 03 16
	266 537	137,891	-	-	404,428			

*Mark Cunningham resigned from the Board on 30 January 2013

The awards granted during the year were made on 18 September 2012. The market price of Ordinary shares at the date of grant was 137.5p.

For those awards vesting during 2012, the market price of Ordinary shares on the exercise date was 132.89p. The notional gains made were as follows:

	Exercised	Value of shares on date of exercise £000	Shares sold to settle tax liabilities	Shares transferred to individual	Value of shares transferred on date of exercise £000
Simon Moate	80,303	107	(41 968)	38 335	51

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

	1 Jan 12	Granted	Exercised	Expired	31 Dec 12	Exercise price per share	Exercisable from	Expiry date
Simon Moate	14 069	-	-	-	14,069	119.4p	01 05 13	30 11 13
Steve McKeever	12,842	-	-	-	12,842	116.8p	01 01 17	30 06 17

The closing market price of Ordinary shares at 31 December 2012 was 124.0p. The shares traded in the range 118.5p to 163.75p during the year.

The details and the performance criteria in respect of the above schemes are discussed on pages 25 and 26.

JL Cohen

Chairman of the Remuneration Committee

25 March 2013

Independent Auditors' Report to the members of office2office plc

We have audited the financial statements of office2office plc for the year ended 31 December 2012 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 statements of cash flows, the significant accounting policies and information 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 parent 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 page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2012 and of the Group's profit and Group's and parent 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 parent 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, and
- the information given in the Corporate Governance Statement set out on pages 19 to 22 with respect to internal control and risk management systems and about share capital structures 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 parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent 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 parent Company

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 20, in relation to going concern
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Stuart Newman

(Senior Statutory Auditor)
for and on behalf of

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

Norwich

25 March 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Revenue	3	227,279	193,498
Cost of sales	4	(167,683)	(137,860)
Gross profit		59,596	55,638
Distribution costs	4	(25,310)	(18,375)
Administrative expenses	4	(31,457)	(31,418)
Operating profit		2,829	5,845
Finance costs	8	(2,138)	(1,555)
Profit before income tax		691	4,290
Analysed as			
Underlying profit before income tax*		6,478	8,412
Share option expense	26	(541)	(409)
Non-recurring costs	5	(4,002)	(2,398)
Amortisation of intangibles	12	(1,244)	(1,315)
Profit before income tax	3	691	4,290
Income tax (expense)/credit	9	(363)	22
Profit for the year		328	4,312
Earnings per Ordinary share attributable to owners of the Company			
Basic	11	0.9p	12.0p
Diluted	11	0.9p	12.0p

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

The Company has elected to take the exemption under s.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 £97,000 (2011: £4,097,000).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	2012 £000	2011 £000
Profit for the year	328	4 312
Other comprehensive income		
Currency translation differences	(43)	(75)
Total comprehensive income for the year	285	4,237

Consolidated and Company Balance Sheets

as at 31 December 2012

		Consolidated		Company	
	Note	2012 £000	2011 £000	2012 £000	2011 £000
Assets					
Non-current assets					
Intangible assets	12	57,878	58,671	-	-
Property plant and equipment	13	3,225	3 316	-	-
Investments in subsidiaries	14	-	-	9,156	8 615
Retirement benefit asset	24	490	105	-	-
Deferred income tax assets	15	1,039	1 391	-	-
		62,632	63,483	9,156	8 615
Current assets					
Inventories	16	9,045	8,974	-	-
Trade and other receivables	17	37,839	28,965	5,654	9 670
Current income tax asset	22	155	98	-	-
Cash and cash equivalents	18	1,725	1 169	-	-
		48,764	39 206	5,654	9,670
Total assets		111,396	102 689	14,810	18 285
Equity					
Capital and reserves attributable to the owners of the Company					
Ordinary shares	25	363	363	363	363
Share premium account		5,009	5 009	5,009	5 009
Other reserves		41	84	-	-
Retained earnings		14,127	17 386	9,413	12 888
Total equity		19,540	22,842	14,785	18 260
Liabilities					
Non-current liabilities					
Borrowings	20	12,322	17,515	-	-
Deferred income tax liabilities	15	1,283	1 520	-	-
Provisions	23	495	470	-	-
		14,100	19 505	-	-
Current liabilities					
Trade and other payables	19	59,200	48 362	25	25
Borrowings	20	18,435	11,304	-	-
Provisions	23	121	676	-	-
		77,756	60 342	25	25
Total liabilities		91,856	79 847	25	25
Total equity and liabilities		111,396	102 689	14,810	18 285

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 statements of cash flows, the significant accounting policies and information and the notes to the financial statements were approved for issue by the Board of Directors on 25 March 2013.

D J Callear - Chairman

25 March 2013

Registered number 04083206

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012		363	5 009	84	17 386	22 842
Profit for the year		-	-	-	328	328
Other comprehensive income		-	-	(43)	-	(43)
Total comprehensive income for the year ended 31 December 2012		-	-	(43)	328	285
Employee share options						
- value of employee services	26	-	-	-	476	476
- deferred tax on share options	9	-	-	-	50	50
Dividends						
- Ordinary shares	10	-	-	-	(4 113)	(4,113)
		-	-	(43)	(3 259)	(3 302)
Balance at 31 December 2012		363	5,009	41	14,127	19,540

	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2011		363	5 009	159	16 770	22 301
Profit for the year		-	-	-	4 312	4 312
Other comprehensive income		-	-	(75)	-	(75)
Total comprehensive income for the year ended 31 December 2011		-	-	(75)	4 312	4 237
Employee share options						
- value of employee services	26	-	-	-	342	342
- deferred tax on share options	9	-	-	-	6	6
Sale of shares by employee benefit trust		-	-	-	51	51
Dividends						
- Ordinary shares	10	-	-	-	(4 095)	(4,095)
		-	-	(75)	616	541
Balance at 31 December 2011		363	5 009	84	17 386	22 842

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.

Company Statement of Changes in Equity

for the year ended 31 December 2012

	Note	Ordinary shares £000	Share premium account £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012		363	5 009	12 888	18,260
Profit for the year		-	-	97	97
Total comprehensive income for the year ended 31 December 2012		-	-	97	97
Credit to reserves for share based payments	26	-	-	541	541
Dividends					
- Ordinary shares	10	-	-	(4,113)	(4,113)
		-	-	(3 475)	(3 475)
Balance at 31 December 2012		363	5,009	9,413	14,785

	Note	Ordinary shares £000	Share premium account £000	Retained earnings £000	Total equity £000
Balance at 1 January 2011		363	5 009	12 426	17 798
Profit for the year		-	-	4 097	4 097
Total comprehensive income for the year ended 31 December 2011		-	-	4,097	4 097
Credit to reserves for share based payments	26	-	-	409	409
Sale of shares by employee benefit trust		-	-	51	51
Dividends					
- Ordinary shares	10	-	-	(4,095)	(4 095)
		-	-	462	462
Balance at 31 December 2011		363	5 009	12 888	18 260

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.

Consolidated and Company Statements of Cash Flows

for the year ended 31 December 2012

		Consolidated		Company	
	Note	2012 £000	2011 £000	2012 £000	2011 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	27	6,536	10 870	4,016	(53)
Interest paid		(2,130)	(1 251)	-	-
Income tax paid		(255)	(783)	-	-
Net cash generated from/(used in) operating activities		4,151	8 836	4,016	(53)
Cash flows from investing activities					
Purchase of property plant and equipment		(1,140)	(960)	-	-
Capitalised software		(451)	-	-	-
Proceeds from disposal of trading activities		358	-	-	-
Interest received		-	-	97	97
Dividends received		-	-	-	4 000
Net cash (used in)/generated from investing activities		(1,233)	(960)	97	4 097
Cash flows from financing activities					
Finance lease principal payments		(551)	(288)	-	-
Repayment of borrowings		(2,500)	(2,500)	-	-
Arrangement fee on re-financing		-	(683)	-	-
Sale of shares by employee benefit trust		-	51	-	51
Dividends paid to Company's shareholders	10	(4,113)	(4 095)	(4,113)	(4 095)
Net cash used in financing activities		(7,164)	(7,515)	(4,113)	(4 044)
Net (decrease)/increase in cash cash equivalents and bank overdrafts					
		(4,246)	361	-	-
Cash cash equivalents and bank overdrafts at 1 January	18	(7,498)	(7 859)	-	-
Cash, cash equivalents and bank overdrafts at 31 December	18	(11,744)	(7,498)	-	-

Net debt at 31 December comprises

		Consolidated		Company	
		2012 £000	2011 £000	2012 £000	2011 £000
Cash cash equivalents and bank overdrafts		(11,744)	(7,498)	-	-
Finance leases		(232)	(725)	-	-
Bank loans		(17,056)	(19 427)	-	-
Net debt at 31 December		(29,032)	(27 650)	-	-

Significant Accounting Policies for the year ended 31 December 2012

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 domiciled 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, and applied by the Company as appropriate, are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Group and the individual 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), IFRS-IC (IFRS Interpretations Committee) 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 2012. 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 June 2015. 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 2012

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

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.

- Amendment to IFRS 1 on hyperinflation and fixed dates
- Amendment to IFRS 7, 'Financial instruments: Disclosures'
- Amendment to IAS 12, 'Income taxes' on deferred tax

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

- Amendment to IAS 1, 'Financial Statement Presentation'
- Amendment to IAS 19, 'Employee benefits'
- Amendment to IAS 32, 'Financial instruments: Presentation'

- IAS 27 (revised 2011), 'Separate financial statements'
- IFRS 9, 'Financial instruments'
- IFRS 10, 'Consolidated financial statements'
- IFRS 12, 'Disclosures of interests in other entities'
- IFRS 13, 'Fair value measurement'

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

- IAS 28 (revised 2011), 'Associates and joint ventures'
- Amendment to IFRS 1, 'First time adoption'
- IFRS 11, 'Joint arrangements'

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 acquisition method of accounting is used to account for business combinations. 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. 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

Significant Accounting Policies for the year ended 31 December 2012

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. Directly attributable costs associated with a business combination are recognised 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.

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 or in the case of ex-works arrangements, when custody of goods is transferred to the customers' logistics provider.

Supply of goods

Our Managed Procurement segment provides a stock and distribution operation for the supply of stationery and office products, furniture and technology products. Revenue is recognised once the delivery to the customer has been completed.

Supply of services

Our Business Critical Services segment is a service based operation providing print management, document management, marketing services, direct marketing, professional consultancy and on and off site shredding services.

The value attributed to the service is determined through contractual prices agreed prior to the commencement of the work with the customer. Where there are retained customer arrangements and a range of services are provided, the revenue for each separate service is recognised when all the elements of that service are complete, with amounts accrued or deferred on the balance sheet as appropriate, each separate service is generally subject to specific pricing.

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 Executive 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 in the income statement.

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 in the statement of comprehensive income.

Non-recurring costs

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 non-recurring costs are principally restructuring related and business start-up or closure costs, costs in respect of key management changes, transaction costs incurred in respect of business combinations, gains or losses on disposal of trading activities and costs associated with the closure of employee pension schemes.

Business combinations and goodwill

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) and carried at cost less accumulated impairment losses.

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.

Significant Accounting Policies for the year ended 31 December 2012

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 IFRS 1, '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

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.

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.

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 (BMC)	10 years
------------------------	----------

Accord Office Supplies Limited (Accord)	10 years
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The Print Factory (London) 1991 Limited and DSR Group Limited (BMC)	10 years
--	----------

Martin Luck Limited – Newbury branch (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.

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 (BMC)	10 years
------------------------	----------

Accord Office Supplies Limited (Accord)	10 years
--	----------

Software

Costs associated with maintaining software are expensed as incurred. Development costs controlled internally and directly attributable to the design and testing of identifiable software are recognised as intangible assets when there is an ability and intention to use or sell the software product, completion of the software is reasonably certain and the expenditure attributable to the software during its development can be reliably measured. Directly attributable costs, that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously

recognised as an expense are not recognised as an asset in a subsequent period.

Purchased software is recognised as an intangible asset at the fair value of the consideration paid to acquire it less provisions for amortisation and impairment.

Software is 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 non-financial 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 or depreciation 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 asset's 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.

Significant Accounting Policies for the year ended 31 December 2012

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:

Freehold land and buildings
– over 40 years

Short leasehold land and buildings
– over the lease term

Plant and machinery
– over 4 to 15 years

Office equipment
– over 3 to 10 years

The depreciation charge in respect of freehold land and buildings, 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 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 statement of cash flow 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 lease term. Provisions are 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.

Significant Accounting Policies for the year ended 31 December 2012

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 closed to future accrual on 31 December 2011. 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) were 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. With effect from 1 January 2013, modifications to IAS 19 will no longer permit the use of the corridor approach, after which the full provision will be required for actuarial liabilities.

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 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 retained earnings. 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 Directors' 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. The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

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.

Significant Accounting Policies for the year ended 31 December 2012

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 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.

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.

Significant Accounting Policies for the year ended 31 December 2012

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

	2012 £000	2011 £000
Profit before income tax	691	4 290
Add		
Share option charges (note 26)	541	409
Non-recurring costs (note 5)	4,002	2 398
Amortisation of intangibles (note 12)	1,244	1,315
Underlying profit before income tax	6,478	8 412

Notes to the Financial Statements for the year ended 31 December 2012

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 2012, 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 £29,000 (2011: £75,000) 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.

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

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 be expected to be incurred by the Group. For the year ended 31 December 2012, if the gross margin percentage had weakened/strengthened by 1% with all other variables held constant, gross profit for the year would have been £2,273,000 (2011: £1,935,000) lower/higher.

(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 2011 and 2012, 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 2012, 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, because a movement of this magnitude is considered to be a reasonable approximation of movements that could be expected to occur. 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 £316,000 (2011: £252,000) 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.

Notes to the Financial Statements for the year ended 31 December 2012

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 2012

	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)	18,928	4,281	8,570	-
Finance leases	146	29	65	14
Trade payables and accrued expenses	53,977	-	-	-
	73,051	4,310	8,635	14

At 31 December 2011

	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)	11,888	4,101	14,583	-
Finance leases	327	341	97	16
Trade payables and accrued expenses	45,219	-	-	-
	57,434	4,442	14,680	16

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

In addition to short-term borrowing facilities, the Group refinanced a £20,000,000 loan on 19 May 2011. The loan is repayable in instalments between June 2012 and June 2015, with interest charged at a floating rate linked to LIBOR. A maturity analysis is provided at note 20 to the financial statements.

Notes to the Financial Statements for the year ended 31 December 2012

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 2012 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

	2012 £000	2011 £000
Sterling - deposits	389	824
Sterling - bank overdrafts	(13,469)	(8 667)
	(13,080)	(7 843)
Euro - deposits	1,154	345
Swedish Krona - deposits	182	-
	(11,744)	(7,498)

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

Committed and uncommitted undrawn facilities

The Group has the following undrawn borrowing facilities

	2012 £000	2011 £000
Gross undrawn committed confidential invoice discounting facility	21,353	18 290
Revolving credit facility	-	3 000
Short-term overdraft	1,000	-
Cash book overdraft	(2,822)	(1 957)
Net undrawn facilities	19,531	19,333
Bank balances	1,725	1,169
Available liquidity	21,256	20,502

As at 31 December 2012, the Group had drawn £5,647,000 against its committed invoice discounting facility. At that date the Group had a cash book overdraft of £2,822,000 (2011: £1,957,000) and bank balances of £1,725,000 (2011: £1,169,000). If all payments had cleared on the day of issue, the Group would have had net available liquidity of £21,256,000 (2011: £20,502,000).

The confidential invoice discounting facility is a committed facility, subject to sufficient security from trade receivables, expiring in June 2015.

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 2012 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).

Notes to the Financial Statements for the year ended 31 December 2012

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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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. Total capital is calculated as total equity plus net debt.

During 2012, the Group increased its gearing ratio from 55% to 60%. The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 £000	2011 £000
Total borrowings (note 20)	30,757	28,819
Less: cash and cash equivalents (note 18)	(1,725)	(1,169)
Net debt	29,032	27,650
Total equity	19,540	22,842
Total capital	48,572	50,492
Gearing ratio	60%	55%

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 management's 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.

Notes to the Financial Statements for the year ended 31 December 2012

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', 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 Executive Board of Directors, the Executive 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 Truline in respect of Managed Procurement and Banner Managed Communication 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.

Notes to the Financial Statements for the year ended 31 December 2012

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 non-recurring expenditure from the operating segments, such as restructuring costs. An analysis of intangible assets and amortisation, although not included in the performance measure for the segments, have been included to aid the reader. Other information provided to the Board, except as noted below, is measured in a manner consistent with that in the financial statements.

	Managed Procurement £000	Business Critical Services £000	Total £000
Year ended 31 December 2012			
Revenue	147,660	79,619	227,279
Gross margin %	26.1%	26.5%	26.2%
Adjusted EBITA	11,215	6,983	18,198
Year ended 31 December 2011			
Revenue*	127,787	65,711	193,498
Gross margin %*	28.6%	29.1%	28.8%
Adjusted EBITA*	13,017	7,035	20,052
Total Assets			
31 December 2012	54,528	56,518	111,046
31 December 2011	50,105	52,178	102,283
Additions to property, plant and equipment			
31 December 2012	633	565	1,198
31 December 2011	851	109	960
Depreciation			
31 December 2012	(736)	(324)	(1,060)
31 December 2011	(461)	(334)	(795)
Additions to intangible assets			
31 December 2012	134	317	451
31 December 2011	-	-	-
Intangible assets			
31 December 2012	20,389	37,489	57,878
31 December 2011	20,475	38,196	58,671
Amortisation			
31 December 2012	(218)	(1,026)	(1,244)
31 December 2011	(254)	(1,061)	(1,315)

*Restated for transfer of business operations (£3.2m revenue and £0.5m gross margin) into appropriate segment

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

	2012 £000	2011 £000
Adjusted EBITA for reportable segments	18,198	20,052
Central costs	(9,582)	(10,085)
Finance costs	(2,138)	(1,555)
Underlying profit before income tax	6,478	8,412
Share option expense	(541)	(409)
Non-recurring costs	(4,002)	(2,398)
Amortisation	(1,244)	(1,315)
Profit before income tax	691	4,290

Notes to the Financial Statements for the year ended 31 December 2012

Reportable segments' assets are reconciled to total assets as follows

	2012 £000	2011 £000
Total segment assets	111,046	102,283
Unallocated		
Short leasehold land and buildings - head office	350	406
Total assets per balance sheet	111,396	102,689

Revenue generated by geographical segment

	2012 £000	2011 £000
United Kingdom	226,022	189,829
Republic of Ireland	1,257	3,669
Total	227,279	193,498

Of the revenues generated in the United Kingdom £222,788,000 (2011: £188,059,000) are generated from customers in the United Kingdom and the total of revenues from customers from other countries is £3,234,000 (2011: £1,770,000). 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 £61,593,000 (2011: £62,092,000) and £nil (2011: £nil) respectively relate to non-current assets (other than deferred tax assets).

Expenditure on property, plant and equipment of £1,198,000 (2011: £960,000) was incurred in the United Kingdom. Expenditure on intangible fixed assets of £451,000 (2011: £nil) 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	2012 £000	2011 £000
Changes in inventories of finished goods and consumption of goods held for resale	167,773	138,070
Employee benefit expense (note 6a)	31,000	28,742
Depreciation of property, plant and equipment (note 13)	1,060	795
Amortisation of intangible assets (note 12)	1,244	1,315
Non-recurring costs (note 5)	4,002	2,398
Foreign exchange gains	(98)	(19)
Impairment to trade and other receivables	8	(191)
Operating lease payments	4,234	3,249
Other operating costs	15,227	13,294
Total cost of sales, distribution costs and administrative expenses	224,450	187,653

Notes to the Financial Statements for the year ended 31 December 2012

5. Non-recurring costs/(credits)

The amounts recognised as non-recurring costs/(credits) are as follows

	2012 £000	2011 £000
Compensation payments	678	1,264
Business closure costs	659	-
Gain on disposal of trading activity	(75)	-
Business review costs	881	734
Net curtailment gain on cessation of defined benefit scheme	-	(333)
Contract implementation and business start up costs	1,859	733
	4,002	2,398

Compensation payments relate to amounts paid to ex-employees of Group companies. Business closure costs and gain on disposal relates to the closure of non-core activities. Business review costs relate to costs incurred by the Group in relation to management's commitment to improve operational efficiency. Contract implementation and business start up costs relate to costs incurred with setting up the Truline business. The curtailment gain arises following the closure of the defined benefit pension scheme to future accrual, net of costs incurred.

6a. Employee benefit expense

	2012 £000	2011 £000
Wages and salaries	26,961	25,508
Social security costs	2,771	2,594
Share based payments (note 26)	476	342
Pension costs - defined benefit (note 24)	(24)	(378)
- defined contribution (note 24)	816	676
	31,000	28,742

Included within the above figures are compensation payments to ex-employees of £678,000 (2011: £1,264,000)

Key management compensation

Key management are the executive Directors, non-executive Directors and the senior management teams of the trading divisions.

Their employment costs during the year were as follows

	2012 £000	2011 £000
Salaries and other short term employee benefits	2,125	2,026
Post-retirement benefits	140	146
Share based payments	330	299
	2,595	2,471

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 25 to 29 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

	2012 Number	2011 Number
Average monthly number of people (including executive Directors) employed		
Sales and marketing	387	388
Production and distribution	467	394
Administration	129	129
	983	911

Notes to the Financial Statements for the year ended 31 December 2012

7. Auditors' remuneration

Services provided by the Company's auditors and its associates

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

Group	2012 £000	2011 £000
Fees payable to Company's auditors for the audit of the Company and consolidated financial statements	45	45
Fees payable to the Company's auditors and its associates for other services expensed in the income statement		
- audit of Company's subsidiaries	80	77
- interim review fee	10	10
- audit-related assurance services	25	-
- taxation compliance services	25	20
- taxation advisory services	17	-
	202	152

8. Finance costs

Group	2012 £000	2011 £000
Finance costs		
- bank loans and overdrafts	(1,604)	(1 102)
- finance lease liabilities	(38)	(55)
- other financial charges	(169)	(119)
- customer procurement card charges	(327)	(279)
	(2,138)	(1 555)

Customer procurement card charges relate to costs incurred in processing customer payments

9. Income tax expense/(credit)

Group	2012 £000	2011 £000
Current tax		
United Kingdom corporation tax	181	792
Adjustments in respect of prior years	17	(816)
	198	(24)
Deferred tax (note 15)		
Origination and reversal of temporary differences	129	278
Impact of change in the UK tax rate	(35)	(84)
Adjustments in respect of prior years	71	(192)
	165	2
	363	(22)

Notes to the Financial Statements for the year ended 31 December 2012

Tax on items charged to equity

	2012 £000	2011 £000
Deferred tax credit on share options (note 15)	(50)	(6)

The standard rate of UK corporation tax changed from 26% to 24% with effect from 1 April 2012. The Group tax charge for the year differs from the standard rate of corporation tax of 24.5% (2011: 26.5%). The differences are explained below:

	2012 £000	2011 £000
Profit before income tax	691	4,290
Income tax at the standard rate of UK corporation tax of 24.5% (2011: 26.5%)	169	1,137
Tax effects of:		
Expenses not deductible for tax purposes	141	60
Utilisation of previously unrecognised tax losses	-	(127)
Re-measurement of deferred tax - change in the UK tax rate	(35)	(84)
Adjustments in respect of prior years	88	(1,008)
Total tax charge/(credit) for the year	363	(22)

Factors affecting future tax charges

The effective tax rate in the near future is anticipated to be similar to the standard rate of corporation tax.

During the year, the relevant deferred tax balances have been re-measured as a result of the change in the UK main corporation tax rate to 24%, which was substantively enacted on 26 March 2012 and was effective from 1 April 2012, and to 23% which was substantively enacted on 3 July 2012 and will be effective from 1 April 2013. A further reduction to the UK corporation tax rate has been announced, reducing the rate to 21% by 1 April 2014 and 20% by 1 April 2015. The change had not been substantively enacted at the balance sheet date and therefore has not been reflected in these financial statements.

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

10. Dividends

	2012 £000	2011 £000
Amounts recognised as distributions in the year in respect of:		
Ordinary shares - interim dividend 2012 - 3.6p per share	(1,302)	-
Ordinary shares - final dividend 2011 - 7.8p per share	(2,811)	-
Ordinary shares - interim dividend 2011 - 3.6p per share	-	(1,297)
Ordinary shares - final dividend 2010 - 7.8p per share	-	(2,798)
	(4,113)	(4,095)

The Directors have proposed a final dividend of 3.6p per Ordinary share (total £1,302,000), payable on 11 July 2013 to shareholders on the register at the close of business on 17 May 2013. The dividend has not been included as a liability as at 31 December 2012.

Notes to the Financial Statements for the year ended 31 December 2012

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 EBT

	2012	2011
Profit attributable to owners of the Company (£000)	328	4 312
Weighted average number of Ordinary shares in issue ('000)	36,081	35,974
Basic earnings per share (pence)	0.9	12.0

(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.

	2012	2011
Profit attributable to owners of the Company (£000)	328	4 312
Weighted average number of Ordinary shares in issue ('000)	36,081	35 974
Adjusted for share options ('000)	89	95
Weighted average number of Ordinary shares for diluted earnings per share ('000)	36,170	36 069
Diluted earnings per share (pence)	0.9	12.0

(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 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 EBT.

	2012	2011
Profit attributable to owners of the Company (£000)	328	4 312
Amortisation (net of tax)	939	966
Share option expense	541	409
Non-recurring costs (net of tax)	3,022	1 763
Underlying profit attributable to owners of the Company (£000)	4,830	7 450
Weighted average number of Ordinary shares in issue ('000)	36,081	35,974
Underlying earnings per share (pence per share)	13.4	20.7

Notes to the Financial Statements for the year ended 31 December 2012

(d) Underlying diluted earnings per share

Underlying diluted earnings per share is calculated by dividing profit on ordinary activities after tax (before the after tax effect of 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 EBT

	2012	2011
Profit attributable to owners of the Company (£000)	328	4 312
Amortisation (net of tax)	939	966
Share option expense	541	409
Non-recurring costs (net of tax)	3,022	1 763
Underlying profit attributable to owners of the Company (£000)	4,830	7 450
Weighted average number of Ordinary shares in issue ('000)	36,081	35 974
Adjusted for share options ('000)	89	95
Weighted average number of Ordinary shares for diluted earnings per share ('000)	36,170	36 069
Underlying diluted earnings per share (pence)	13 4	20 7

12. Intangible assets

	Goodwill £000	Customer relationships £000	Brands £000	Software £000	Total £000
2012					
Cost					
At 1 January 2012	50 253	8 503	3 938	201	62 895
Additions	-	-	-	451	451
At 31 December 2012	50,253	8,503	3,938	652	63,346
Accumulated amortisation and impairment					
At 1 January 2012	-	(2,590)	(1 436)	(198)	(4 224)
Amortisation for the year	-	(847)	(394)	(3)	(1 244)
At 31 December 2012	-	(3,437)	(1,830)	(201)	(5,468)
Net book amount					
At 31 December 2012	50,253	5,066	2,108	451	57,878
2011					
Cost					
At 1 January 2011	50 253	8 503	3 938	201	62 895
At 31 December 2011	50,253	8,503	3,938	201	62,895
Accumulated amortisation and impairment					
At 1 January 2011	-	(1 700)	(1,034)	(175)	(2 909)
Amortisation for the year	-	(890)	(402)	(23)	(1,315)
At 31 December 2011	-	(2,590)	(1,436)	(198)	(4,224)
Net book amount					
At 31 December 2011	50,253	5,913	2,502	3	58,671
Net book amount					
At 1 January 2011	50,253	6,803	2,904	26	59,986

Customer relationships have 7 2 years (2011 8 2 years) and brands have 5 5 years (2011 6 5 years) before the assets are written down in full. Software costs are amortised over three to five years from date of purchase.

Notes to the Financial Statements for the year ended 31 December 2012

Company

The Company had no intangible assets (2011: 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 (which represent cash-generating units) are shown below:

	2012 £000	2011 £000
Managed Procurement	19,116	19,116
Business Critical Services	31,137	31,137
	50,253	50,253

A review was undertaken at 31 December 2012 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 and then into perpetuity based on no changes to the underlying strategy of the business. Cash flow projections beyond the five year period are extrapolated using the estimated growth rate referred to below, and are considered appropriate as it is expected that there will be no significant changes in the operation of these businesses.

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 12.4% (2011: 12.0%). 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.

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.

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the year ended 31 December 2012. Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 31 December 2012.

Notes to the Financial Statements for the year ended 31 December 2012

13. Property, plant and equipment

Group

	Freehold land and buildings £000	Short leasehold land and buildings £000	Plant and machinery £000	Office equipment £000	Total £000
2012					
Cost					
At 1 January 2012	949	2 809	2,519	597	6 874
Additions at cost	-	169	-	1 029	1,198
Disposals	-	-	(959)	(182)	(1 141)
At 31 December 2012	949	2,978	1,560	1,444	6,931
Accumulated depreciation					
At 1 January 2012	(117)	(1 391)	(1,611)	(439)	(3 558)
Charge for the year	(28)	(422)	(417)	(193)	(1 060)
Disposals	-	-	733	179	912
At 31 December 2012	(145)	(1,813)	(1,295)	(453)	(3,706)
Net book amount					
At 31 December 2012	804	1,165	265	991	3,225
2011					
Cost					
At 1 January 2011	944	2,173	2 662	615	6 394
Additions at cost	5	660	138	157	960
Disposals	-	(24)	(281)	(175)	(480)
At 31 December 2011	949	2,809	2,519	597	6,874
Accumulated depreciation					
At 1 January 2011	(89)	(1 187)	(1 475)	(475)	(3 226)
Charge for the year	(28)	(228)	(400)	(139)	(795)
Disposals	-	24	264	175	463
At 31 December 2011	(117)	(1,391)	(1,611)	(439)	(3,558)
Net book amount					
At 31 December 2011	832	1,418	908	158	3,316
Net book amount					
At 1 January 2011	855	986	1,187	140	3,168

The net book value of assets held under finance leases was £181,000 (2011 £807,000) and is within the plant and machinery category

The Group leases various vehicles and machinery under non-cancellable finance lease arrangements. The lease terms are between one and six years, and ownership of the assets lie within the Group

Company

The Company has no property, plant and equipment (2011 none)

Notes to the Financial Statements for the year ended 31 December 2012

14. Investments in subsidiaries

Company

	2012 £000	2011 £000
At 1 January	8,615	8 206
Options granted to employees of subsidiary undertakings	541	409
At 31 December	9,156	8 615

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	% Shareholding	
			Company	Subsidiary
office2office (UK) plc	Non trading holding company	England	100%	
Olive 1 Limited	Non trading holding company	England	100%	
Truline Logistics Limited	Managed Procurement	England	100%	
Banner Business Services Ltd	Managed Procurement	England		100%
Banner Business Supplies (Ireland) Limited	Managed Procurement	Republic of Ireland	100%	
Banner Document Services Ltd	Business Critical Services	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%
Access Plus Marketing Services Limited	Business Critical Services	England		100%
Banner Business Supplies (Pensions) Limited	Non trading - trustee for pension scheme only	England		100%
Access Plus Limited	Non trading holding company	England		100%
Access Plus Print Management Limited	Non trading*	England		100%
Access Plus Marketing Logistics Limited	Non trading	England		100%
Adversion Limited	Non trading*	England		100%
Alpha Data Supplies Limited	Non trading*	England		100%
Alpha Litho Limited	Non trading*	England		100%
Alpha Office Limited	Non trading	England		100%
Alpha Stationers Limited	Non trading*	England		100%
Banner Business Supplies Ltd	Non trading*	England		100%
Banner Managed Communication Limited	Non trading*	England		100%
Banner Managed Services plc	Non trading*	England		100%
Colebrook Services Limited	Non trading*	England		100%
esp2office Ltd	Non trading*	England		100%
File-It Limited	Non trading*	England		100%
first2office Ltd	Non trading	England		100%
image2office Ltd	Non trading	England		100%
GL2 Limited	Non trading*	England		100%
Godfrey Lang Limited	Non trading*	England		100%
Software Stationery Holdings Limited	Non trading*	England		100%
Software Stationery Specialists Limited	Non trading*	England		100%
TripleArc UK Limited	Non trading*	England		100%

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

* Non trading companies which are exempt from preparing and filing individual accounts by virtue of s394A and s448A of the Companies Act 2006

Notes to the Financial Statements for the year ended 31 December 2012

15. Deferred income tax (liability)/asset

	Group	
	2012 £000	2011 £000
Deferred income tax asset	1,039	1 391
Deferred income tax liability	(1,283)	(1,520)
	(244)	(129)

The net deferred income tax liability is estimated to be payable as follows

	Group	
	2012 £000	2011 £000
Deferred income tax (liability)/asset		
- to be (paid)/recovered after more than 1 year	(135)	74
- to be paid within 1 year	(109)	(203)
	(244)	(129)

The net deferred income tax liability recognised in the financial statements is as follows

	Group	
	2012 £000	2011 £000
Tax effect of timing differences		
Excess of qualifying depreciation over tax allowances	342	392
Tax losses	-	241
Employee share schemes	397	318
Retirement benefit obligations	(113)	(26)
Provisions	300	440
Intangible assets	(1,170)	(1,494)
	(244)	(129)

Group	Asset		Liability	
	2012 £000	2011 £000	2012 £000	2011 £000
At 1 January	1,391	1,801	(1,520)	(1,934)
(Charged)/credited to the income statement (note 9)	(402)	(416)	237	414
Credited to equity (note 9)	50	6	-	-
At 31 December	1,039	1 391	(1,283)	(1 520)

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

Notes to the Financial Statements for the year ended 31 December 2012

The movements in deferred tax assets/(liabilities) during the period is shown below

Group

	At 1 Jan 2012 £000	(Charged)/ credited to the income statement £000	Credited to equity £000	At 31 Dec 2012 £000
Depreciation over tax allowances	392	(50)	-	342
Intangible assets	(1 494)	324	-	(1 170)
Provisions	440	(140)	-	300
Retirement benefit obligations	(26)	(87)	-	(113)
Tax losses	241	(241)	-	-
Share options	318	29	50	397
Total	(129)	(165)	50	(244)

	At 1 Jan 2011 £000	(Charged)/ credited to the income statement £000	Credited to equity £000	At 31 Dec 2011 £000
Depreciation over tax allowances	595	(203)	-	392
Intangible assets	(1 832)	338	-	(1 494)
Provisions	576	(136)	-	440
Retirement benefit obligations	210	(236)	-	(26)
Tax losses	-	241	-	241
Share options	318	(6)	6	318
Total	(133)	(2)	6	(129)

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 has not recognised a deferred tax asset relating to non-trade losses of £452,000 (2011 £491,000) as there are no expected changes in the operating characteristics of the subsidiary to which they relate that would permit utilisation in future periods

Company

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

Notes to the Financial Statements for the year ended 31 December 2012

16. Inventories

Group	2012 £000	2011 £000
Finished goods and goods for resale	9,045	8,974

The Group consumed £167,773,000 (2011 £138,070,000) of inventories during the year

The provision to reflect net realisable value being less than cost decreased by £331,000 (2011 £278,000) during the year

Company

The Company held no inventories (2011 £nil)

17. Trade and other receivables

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade receivables	31,308	24,208	-	-
Less provision for impairment	(797)	(871)	-	-
Trade receivables net	30,511	23,337	-	-
Prepayments and accrued income	7,271	5,573	-	-
Other receivables	57	55	-	-
Receivables from related parties (note 30)	-	-	5,654	9,670
	37,839	28,965	5,654	9,670

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% (2011 1.75%) per annum above Bank of England base rate. Interest is not charged on the other balances.

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	
	2012 £000	2011 £000	2012 £000	2011 £000
Sterling	36,394	27,704	5,654	9,670
Euro	1,047	1,175	-	-
US Dollar	249	86	-	-
Swedish Krona	149	-	-	-
	37,839	28,965	5,654	9,670

Group

Trade receivables that are not past due, amounting to £16,863,000 (2011 £11,551,000) 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 2012, trade receivables of £13,009,000 (2011 £11,080,000) were past due but not impaired. The analysis of these trade receivables (by reference to due date) are aged as follows:

	2012 £000	2011 £000
Up to 1 month past due	7,142	7,883
Over 1 month past due	5,867	3,197
	19,745	11,080

Notes to the Financial Statements for the year ended 31 December 2012

As of 31 December 2012, trade receivables of £1,436,000 (2011 £1,577,000) were impaired and partially provided for. The amount of the provision against such impaired trade receivables was £797,000 as of 31 December 2012 (2011 £871,000). The individually impaired receivables mainly relate to issues arising from the current economic climate. These receivables are aged as follows:

	2012 £000	2011 £000
0 to 3 months overdue	334	498
3 to 6 months overdue	233	335
Over 6 months overdue	869	744
	1,436	1,577

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

	2012 £000	2011 £000
At 1 January	871	1,309
Increase/(decrease) in provision for receivables impairment	8	(191)
Receivables written off during the year as uncollectable	(82)	(247)
At 31 December	797	871

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 – pre-existing customers with no defaults in the previous six months.

18. Cash and cash equivalents

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Cash at bank and in hand	1,725	1,169	-	-

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

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Cash at bank and in hand	1,725	1,169	-	-
Bank overdrafts (note 20)	(13,469)	(8,667)	-	-
	(11,744)	(7,498)	-	-

19. Trade and other payables

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade payables	(39,452)	(33,336)	-	-
Social security and other taxes	(5,223)	(3,143)	-	-
Accrued expenses and deferred income	(14,525)	(11,883)	(24)	(24)
Payables to related parties (note 30)	-	-	(1)	(1)
	(59,200)	(48,362)	(25)	(25)

Notes to the Financial Statements for the year ended 31 December 2012

20. Borrowings

	Group	
	2012 £000	2011 £000
Non-current		
Bank borrowings	(12,228)	(17,089)
Finance leases	(94)	(426)
	(12,322)	(17,515)
Current		
Bank overdrafts	(13,469)	(8,667)
Bank borrowings	(4,828)	(2 338)
Finance leases	(138)	(299)
	(18,435)	(11 304)
Total borrowings	(30,757)	(28 819)

The Company does not have any borrowings (2011: £nil)

Bank borrowings

Bank borrowings mature in 2015 and bear interest at a floating rate in the range of 200 to 325 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 includes invoice discounting arrangements and cash book overdrafts.

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

	Bank borrowings	
	2012 £000	2011 £000
Within one year or on demand	(18,297)	(11,005)
Between one and two years	(3,828)	(3 338)
Between two and three years	(8,400)	(3 838)
Between three and four years	-	(9 913)
	(30,525)	(28,094)

The borrowings are denominated in Sterling.

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

	Carrying amount		Fair value	
	2012 £000	2011 £000	2012 £000	2011 £000
Bank borrowings	(12,228)	(17,089)	(13,722)	(19 934)

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 2012 of 4.0%. Included in the above are debt arrangement fees of £272,000 (2011: £411,000).

Finance leases

The fair value of the Group's lease obligations is not considered to be materially different to their carrying value.

Notes to the Financial Statements for the year ended 31 December 2012

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	
	2012 £000	2011 £000
Within one year	146	327
In more than one year but not more than five years	94	438
In more than five years	14	16
	254	781

Group	Future finance charges	
	2012 £000	2011 £000
Within one year	8	28
In more than one year but not more than five years	9	24
In more than five years	5	4
	22	56

Group	Net minimum lease payments	
	2012 £000	2011 £000
Within one year	138	299
In more than one year but not more than five years	85	414
In more than five years	9	12
	232	725

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 asset

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Current income tax asset	155	98	-	-

Notes to the Financial Statements for the year ended 31 December 2012

23. Provisions

	Property dilapidations £000	Onerous leases £000	Total £000
At 1 January 2012	(527)	(619)	(1,146)
Charged to the income statement			
- Additional provisions	-	(121)	(121)
Utilised during the year	32	619	651
At 31 December 2012	(495)	(121)	(616)
Maturity profile of provisions		2012 £000	2011 £000
Current		(121)	(676)
Non-current		(495)	(470)
At 31 December		(616)	(1,146)

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 eight 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 five years.

Company

The Company has no provisions (2011: £nil).

24. Retirement benefit asset

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 Pension Scheme (TSOPS). The scheme is funded by the payment of contributions to a separately administered trust fund. The scheme currently has 162 members and was closed to future accrual on 31 December 2011.

The latest full actuarial valuation was carried out on 31 July 2010 and updated to 31 December 2012 by Punter Southall Limited, 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 2012 amounted to £13,101,000 (2011: £11,854,000).

Group contributions in respect of the defined benefit pension scheme for the period were £361,000 (2011: £505,000). Group contributions in 2013 are expected to be approximately £300,000.

The Group also incurred £816,000 (2011: £676,000) 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 2012 was £166,000 (2011: £203,000).

Notes to the Financial Statements for the year ended 31 December 2012

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

	2012 £000	2011 £000
Present value of funded obligations	(13,878)	(12,476)
Fair value of plan assets	13,101	11,854
	(777)	(622)
Unrecognised actuarial losses	1,267	727
Asset in the balance sheet	490	105

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

	2012 Expected return p a	2011	2012 £000	2011 £000
Equities	6 0%	6 0%	9,919	9,116
Bonds	3 0%	3 0%	2,033	1,195
Property	5 0%	5 0%	634	979
Other	0 3%	0 3%	515	564
			13,101	11,854

The amounts recognised in the income statement are as follows

	2012 £000	2011 £000
Current service cost	-	(219)
Scheme interest cost	(614)	(735)
Expected return on plan assets	638	752
Curtailment – removal of ill health allowance	-	222
Curtailment – removal of salary link	-	394
Net actuarial gains recognised in the year	-	(36)
Income/(expenses) recognised in the income statement as administrative expenses	24	378

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

	2012 £000	2011 £000
Fair value of plan assets at 1 January	11,854	11,299
Expected return on plan assets	638	752
Actuarial gain/(loss)	398	(700)
Employer contribution	361	505
Member contributions	-	75
Benefits paid	(150)	(77)
Fair value of plan assets at 31 December	13,101	11,854

The movement in the defined benefit obligation is as follows

	2012 £000	2011 £000
Defined benefit obligations at 1 January	(12,476)	(13,010)
Current service cost	-	(219)
Interest cost	(614)	(735)
Member contributions	-	(75)
Actuarial (losses)/gains	(938)	870
Benefits paid	150	77
Curtailment – removal of ill health allowance	-	222
Curtailment – removal of salary link	-	394
Present value of funded obligations at 31 December	(13,878)	(12,476)

Notes to the Financial Statements for the year ended 31 December 2012

The principal actuarial assumptions were as follows

	2012 %p a	2011 %p a
Discount rate	4.6	5.0
Expected rate of return on plan assets	5.3	5.3
Future salary increases	n/a	n/a
Future pension increases		
- transferred from TSOPS	2.4	2.5
- earned in Scheme	3.1	3.2
Inflation - RPI	3.1	3.2
Inflation - CPI	2.4	2.5

The expected return on plan assets for 2012 is based on market conditions at 31 December 2012 for returns over the entire life of the obligation

	2012 £000	2011 £000
Actual return on plan assets	1,036	52

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

	2012 Years	2011 Years
Male member aged 65 (current life expectancy)	22.2	22.1
Female member aged 65 (current life expectancy)	24.3	24.2
Male member aged 45 (life expectancy at age 65)	23.6	23.5
Female member aged 45 (life expectancy at age 65)	25.9	25.8

History of experience gains and losses

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of funded obligations	(13,878)	(12,476)	(13,010)	(12,762)	(10,487)
Fair value of plan assets	13,101	11,854	11,299	9,181	7,128
Deficit in the plan	(777)	(622)	(1,711)	(3,581)	(3,359)
Experience adjustments arising on scheme assets	398	(700)	938	1,172	(2,283)
Experience adjustments arising on scheme liabilities	-	768	-	-	(199)

Company

The Company has no retirement benefit liabilities (2011: Nil)

25. Ordinary shares

	2012		2011	
	No	£	No	£
Issued and fully paid				
Ordinary shares of 1p each	36,308,984	363,090	36,308,984	363,090

138,155 Ordinary shares are held by the EBT (2011: 269,356), for which the right to receive dividends has been waived

Notes to the Financial Statements for the year ended 31 December 2012

26. Share options

	Number 1 Jan 12	Number granted	Number exercised	Number expired	Number 31 Dec 12	Exercise price per share	Exercisable from	Expiry date
PSP								
Date granted								
March 2009	160 606	-	(80,303)	(80 303)	-	0 1p	04 03 12	04 03 13
April 2009	370 067	-	(50 898)	(319 169)	-	0 1p	30 04 12	30 04 13
May 2010	641,961	-	-	(43 891)	598,070	0 1p	21 05 13	21 05 14
September 2010	58,333	-	-	-	58,333	0 1p	24 09 13	24 09 14
June 2011	1 466 796	-	-	-	1,466,796	0 1p	20 06 14	20 06 15
September 2012	-	935 622	-	-	935,622	0 1p	18 09 15	18 09 16
SAYE scheme								
Date granted								
April 2008 (5yr)	99,035	-	-	(1 406)	97,629	119 4p	01 05 13	31 10 13
December 2011 (3yr)	376 324	-	-	(22 959)	353,365	116 8p	01 01 15	01 07 15
December 2011 (5yr)	90 401	-	-	(16,694)	73,707	116 8p	01 01 17	01 07 17
	3,263,523	935,622	(131 201)	(484 422)	3,583,522			
	Number 1 Jan 11	Number granted	Number exercised	Number expired	Number 31 Dec 11	Exercise price per share	Exercisable from	Expiry date
PSP								
Date granted								
December 2007	189 566	-	(25 781)	(163 785)	-	0 1p	01 04 11	01 10 11
April 2008	542 649	-	(73 800)	(468 849)	-	0 1p	24 04 11	24 10 11
March 2009	160 606	-	-	-	160,606	0 1p	04 03 12	04 03 13
April 2009	370 067	-	-	-	370,067	0 1p	30 04 12	30 04 13
May 2010	669,292	-	-	(27 331)	641,961	0 1p	21 05 13	21 05 14
September 2010	58 333	-	-	-	58,333	0 1p	24 09 13	24 09 14
June 2011	-	1 466 796	-	-	1,466,796	0 1p	20 06 14	20 06 15
SAYE scheme								
Date granted								
October 2005 (5yr)	9 179	-	-	(9 179)	-	224 4p	01 12 10	31 05 11
April 2008 (3yr)	162 677	-	(110 144)	(52 533)	-	119 4p	01 05 11	31 10 11
April 2008 (5yr)	110 289	-	-	(11 254)	99,035	119 4p	01 05 13	31 10 13
December 2011 (3yr)	-	379,406	-	(3,082)	376,324	116 8p	01 01 15	01 07 15
December 2011 (5yr)	-	90,401	-	-	90,401	116 8p	01 01 17	01 07 17
	2 272,658	1 936 603	(209 725)	(736 013)	3,263,523			

Options which expired in the year to 31 December 2012 reflected employees leaving the Group, non-achievement of performance conditions and the expiry of the term of exercise

At 31 December 2012, there were 16 members (2011 18 members) with an average option holding of 191,176 (2011 149,876) of the performance share plan and 135 members (2011 154 members) with average holdings of 3,887 (2011 3,674) of the Save-As-You-Earn (SAYE) scheme

Notes to the Financial Statements for the year ended 31 December 2012

The performance share plan was 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 the Group's earnings per share growth and, for awards made up to 2010, a comparative measure of total shareholder return (TSR) against the companies in the FTSE Small Cap Index. For awards made after 2010 the TSR measure has been replaced by growth in share price. On 18 September 2012, awards were granted over 935,622 shares based on a weighted average share price, of the three days prior to award, of 137.5p per share. 131,201 options were exercised during the year under review. The weighted average share price as at the date of exercise was 138.9p per share. The weighted average remaining contractual life is 1.7 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 2.0 years.

The summary of share options by expiry date in relation to the above schemes were as follows:

Expiry date	Grant	Exercise price per share	Shares 2012	Shares 2011
2013	2008	119.4p	97,629	629,708
2014	2010	0.1p	656,403	700,294
2015	2011	22.8p	1,820,161	1,843,120
2016	2012	0.1p	935,622	-
2017	2011	116.8p	73,707	90,401
			3,583,522	3,263,523

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

	2012 IFRS 2 £000	2012 NI £000	2011 IFRS 2 £000	2011 NI £000
PSP				
Date granted				
April 2008	-	-	26	-
March 2009	2	3	(12)	-
April 2009	2	(4)	(80)	(4)
May 2010	(222)	(32)	187	32
September 2010	20	3	16	4
June 2011	546	83	204	35
September 2012	82	12	-	-
SAYE scheme				
Date granted				
October 2005 (5yr)	-	-	(8)	-
October 2008 (3yr)	-	-	4	-
October 2008 (5yr)	7	-	5	-
December 2011 (3yr)	34	-	-	-
December 2011 (5yr)	5	-	-	-
	476	65	342	67

Notes to the Financial Statements

for the year ended 31 December 2012

The following valuation assumptions have been applied in respect of schemes introduced in the current year. The assumptions in respect of prior year schemes may be found in the prior year annual report and accounts.

Performance share plan – September 2012 option value information

Fair value per option*	£1.05
Option exercise price	£0.001
Weighted average share price	£1.375
Valuation assumptions	
Expected option term	3.25 years
Expected volatility	22.9%
Expected dividend yield	8.2%
Risk free interest rate	0.9%

*Estimated using the Black-Scholes option pricing models

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

Notes to the Financial Statements for the year ended 31 December 2012

27. Cash generated from/(used in) operations

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Profit before income tax	691	4,290	97	4 097
Adjustments for				
Amortisation of intangible assets	1,244	1 315	-	-
Depreciation of property plant and equipment	1,060	795	-	-
(Profit)/loss on disposal of property plant and equipment	(14)	17	-	-
Finance income	-	-	(97)	(97)
Finance costs	2,138	1 665	-	-
Income from investments	-	-	-	(4 000)
Share option expense	476	342	-	-
Increase in inventories	(71)	(2 981)	-	-
(Increase)/decrease in trade and other receivables	(8,874)	(134)	4,016	(53)
Increase in trade and other payables and provisions	9,886	5 561	-	-
Cash generated from/(used in) operations	6,536	10 870	4,016	(53)

Notes to the Financial Statements for the year ended 31 December 2012

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

Group	At 1 January 2012 £000	Cash flow £000	Non-cash movements £000	At 31 December 2012 £000
Cash at bank and in hand	1 169	556	-	1,725
Bank overdrafts	(8 667)	(4,802)	-	(13,469)
	(7,498)	(4 246)	-	(11,744)
Term loan – current	(2 338)	2 500	(4,990)	(4,828)
Finance leases – current	(299)	329	(168)	(138)
Total current net debt	(10 135)	(1 417)	(5,158)	(16,710)
Term loan – non-current	(17,089)	-	4 861	(12,228)
Finance leases – non-current	(426)	222	110	(94)
Total non-current debt	(17 515)	222	4,971	(12,322)
Net debt	(27 650)	(1 195)	(187)	(29,032)

	At 1 January 2011 £000	Cash flow £000	Non-cash movements £000	At 31 December 2011 £000
Cash at bank and in hand	3 693	(2 524)	-	1,169
Bank overdrafts	(11 552)	2 885	-	(8,667)
	(7 859)	361	-	(7,498)
Term loan – current	(2 500)	2,500	(2,338)	(2,338)
Finance leases – current	(309)	288	(278)	(299)
Total current net debt	(10 668)	3 149	(2 616)	(10,135)
Term loan – non-current	(20,000)	-	2 911	(17,089)
Finance leases – non-current	(704)	-	278	(426)
Total non-current debt	(20 704)	-	3,189	(17,515)
Net debt	(31,372)	3 149	573	(27,650)

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

Notes to the Financial Statements for the year ended 31 December 2012

29. 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 £17,500,000 (2011 £20,000,000) subject to facility at 31 December 2012. 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	
	2012 £000	2011 £000	2012 £000	2011 £000
Amounts payable under non-cancellable operating leases				
No later than one year	2,512	2,190	2,049	1,518
Later than one year and no later than five years	4,350	4,543	3,671	2,544
Later than five years	1,362	1,331	201	8
	8,224	8,064	5,921	4,070

Company

The Company has no obligations under operating leases (2011: none).

30. Related parties

Group

Directors' and key management compensation is disclosed in note 6.

Company

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

	2012 £000	2011 £000
Dividends received	-	4,000
Interest received	97	97
	97	4,097

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

	2012 £000	2011 £000
Banner Business Services Limited (note 17)	5,654	9,670
Banner Business Supplies (Ireland) Limited (note 19)	(1)	(1)
	5,653	9,669

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.

Five Year Summary

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Revenue	227,279	193,498	207,631	187,464	180,999
Operating profit - before amortisation, negative goodwill non-recurring costs and share option expenses	8,616	9,967	12,176	13,986	13,425
Amortisation	(1,244)	(1,315)	(1,258)	(999)	(624)
Negative goodwill	-	-	188	-	-
Non-recurring costs	(4,002)	(2,398)	(5,336)	(3,645)	(1,812)
Share option expense	(541)	(409)	(138)	(363)	(23)
Operating profit	2,829	5,845	5,632	8,979	10,966
Net interest payable	(2,138)	(1,555)	(1,000)	(856)	(1,359)
Profit before tax	691	4,290	4,632	8,123	9,607
Capital employed					
Shareholder funds	19,540	22,842	22,301	22,591	20,160
Statistics					
Basic underlying earnings per Ordinary share*	13.4p	20.7p	25.1p	27.1p	24.1p
Basic earnings per Ordinary share	0.9p	12.0p	12.0p	17.2p	18.5p
Diluted earnings per Ordinary share	0.9p	12.0p	12.0p	17.1p	18.5p
Dividends per share	7.2p	11.4p	11.4p	11.4p	11.0p
Share price (period end)	124.0p	139.5p	124.5p	145.5p	65.5p

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

Company Income Statement for the year ended 31 December 2012

	2012 £000	2011 £000
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	-	-
Operating profit	-	-
Income from fixed asset investments	-	4 000
Profit before interest and income tax	-	4,000
Finance income	97	97
Profit before income tax	97	4,097
Income tax expense	-	-
Profit for the year	97	4,097

D J Callear

Chairman

25 March 2013

Shareholder Information

Financial calendar 2013

Announcement of final results for the year ended 31 December 2012
26 March 2013

Annual General Meeting
22 May 2013

Payment of final dividend on Ordinary shares to shareholders on the share register at the close of business on 17 May 2013
11 July 2013

Registrar and transfer office

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

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA
Telephone 0871 664 0300 (calls cost 10p per minute plus network extras)
International +44 (0) 208 639 3399
Lines are open 8 30am to 5 30pm Monday to Friday
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 'OFFL' 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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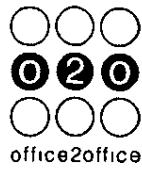
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